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MANUFACTURERS
HANOVER

Financial
Digest

Volume XXVI, Number 23

Monday, November 6, 1989

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Bright Prospects for the Industrial Economies

Manufacturers
Hanover
Economics
Department
17/270

Although the problems of the debt-ridden countries of Latin America and the poverty-stricken nations of Africa and many parts of Asia are all too apparent, the industrial economies appear to be in better overall health now than at any time since the 1960s. The 1980s certainly haven't been easy for policymakers of the industrial nations. They've had to struggle with the inflationary effects of the sharp OPEC oil price increases of the 1970s, record high interest rates, a severe global recession, high unemployment, a better than 90 percent surge of the dollar on the foreign exchange markets, and the steepest global stock market crash since 1929. Yet, these economies, for the most part, will leave the 1980s experiencing fairly robust economic growth, relatively low inflation rates, and, in most cases, declining rates of unemployment.

Looking back to the beginning of the decade, in 1980 the industrial economies recorded a real average growth rate of only 1.4 percent. In that same year, their average inflation rate was in double digits, while they posted a rate of unemployment close to six percent. This year, however, as these economies leave the troublesome 1980s, they are growing at a healthy and sustainable real average rate of 3½ percent, following 1988's four percent clip.

At the same time, despite healthy economic growth in most of the industrial world, inflation is more or less under control. While some countries have had more success with battling price increases than others, the inflation rate in the industrial economies is expected to average around 4½ percent this year, less than half the 12 percent average inflation rate posted in 1980. Robust economic growth is obviously creating new jobs throughout the industrial world. While this year's expected average unemployment rate of seven percent is higher than the 5.8 percent figure posted at the beginning of the decade, it is well below the peak of almost nine percent reached in 1983.

An Investment Boom Sets the Pace

Several factors have led to today's investment boom throughout the industrial world. Perhaps the most important is the implementation of free market economic policies by the governments of most of these countries. While Reaganomics in the United States and Thatcherism in the United Kingdom come to mind immediately, even Socialist governments in France and Spain have done much to deregulate their economies in recent years. Such factors as the liberalization of capital flows among nations, the privatization of government-owned companies, the dismantling of trade barriers, the pro-business attitude of most governments, the rapid spread of technological innovations—and the slashing of marginal tax rates—have all helped to encourage private investment, both domestic and foreign.

At the same time, the need for European businesses to compete in a barrier-free internal market by 1992 has sparked an investment boom in Europe. In order to be able to function in an unprotected environment, investment in plant, equipment and infrastructure has been soaring at unprecedented rates.

Sound economic policies by the governments of most of the major industrial nations have also helped to build investor confidence, thereby encouraging businesses to increase private investment. For example, the general move toward an easier monetary policy in the G-7 nations following the 1987 stock market crash helped avoid a recession last year. More recently, when robust economic growth increased inflationary pressures worldwide at the end of last year and earlier this year, the central banks were quick to tighten monetary policy. As a result, even such high-inflation countries as the United Kingdom, Italy and Spain have posted declines in their year-over-year inflation rates in the past few months.

World Trade Growth Also Contributes

Growth in world trade over the past few years has also made a marked contribution to the current dynamism of the industrial economies. Reflecting the increasing globalization of busi-

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nesses, the liberalization of capital flows, the dismantling of trade barriers and a surge in capital goods exports, the volume of world merchandise trade soared by 8½ percent last year, a record for the decade, and is set to grow by another seven percent this year. Last year, also, the value of world merchandise trade reached $2.88 trillion, up 14½ percent from 1987. The benefits of greater economic integration, including the U.S.-Canada Free Trade Agreement and the unification of the European market in 1992 are likely to generate even larger international exchanges of products in the 1990s.

Because the United States accounts for over 30 percent of the world's gross national product, the possibility that the Federal Reserve will be able to engineer a "soft landing" here has boosted confidence in the economic prospects of the other industrial countries. What's more, as the U.S. economy slows, the German economy, whose growth had lagged the rest of Europe's for most of this decade, will be able to pick up the slack.

Led by sharp increases in export earnings, business investment and income from foreign in-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/18/89)	218,976	+ 1,007	+ 24,810
New York City (10/25/89)	42,378	+ 131	+ 1,437
Commercial Paper (10/25/89)	511,464	- 2,858	+ 83,391

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/18/89)	318,729	- 374	+ 20,253
New York City (10/25/89)	60,217	- 375	+ 4,743

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/18/89)	988,407	+ 2,410	+ 85,648
New York City (10/25/89)	183,320	- 1,360	+ 12,509

Financial Markets

	Friday 11/3/89	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.08%	+ .08	+ .39
180-Day Bills†	8.06	+ .09	+ .05
Longest Bills†	7.98	+ .14	- .22
Recent issues:			
8⅝s 10/15/91	7.95	+ .09	
8¼s 9/30/93	7.94	+ .06	
8s 8/15/99	7.94	+ .02	
8⅛s 8/15/19	7.92	- .02	
Municipals:			
Bond Buyer—20 Bond Index* (11/2/89)	7.24%	+ .02	- .09
Blue List Total ($ Million)	$1,652	- $ 47	+ $146
30-Day Visible Supply ($ Million)	$1,991	- $443	+ $252
Total	$3,643	- $490	+ $398
Corporates:			
Moody's Aa Composite (11/2/89)	9.14	+ .02	- .46
30-Day Visible Supply ($ Million)	$2,520	- $ 15	- $460
Stocks:			
Dow-Jones Averages:			
Industrials	2,629.51	+ 32.79	+483.71
Transportation	1,211.77	+ 21.34	+282.04
Utilities	219.69	+ 3.83	+ 33.58
65 Stocks	1,006.48	+ 14.83	+195.63
N.Y.S.E. Composite Index	187.28	+ 1.68	+ 31.58
N.Y.S.E. Avg. Daily Vol. for Week (000's)	148,930	- 26,506	- 1,980

*34% Taxable equivalent 10.97%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/3/89	Week Ago
Overnight	8.63%	8.63%
1 month	8.63	8.56
3 month	8.63	8.56
6 month	8.44	8.31
1 year	8.38	8.25

FOREIGN EXCHANGE SPOT RATES New York Opening (11/3/89)	Currency Per U.S. $	Week Ago
Belgium	38.65	38.74
Canada	1.1735	1.1778
France	6.2550	6.2700
Germany	1.8440	1.8459
Italy	1353.50	1353.75
Japan	143.35	142.83
Mexico	2592.00	2584.00
Netherlands	2.0790	2.0845
South Korea	672.20	671.60
Switzerland	1.6180	1.6020
Taiwan	25.81	25.77
U.K.*	1.5702	1.5740

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (11/3/89) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.1%	-3.3%

vestments, Germany's economy surged by 4½ percent in the first half of this year from the same 1988 period. As a result, the country's real GDP growth rate is expected to exceed four percent this year, its fastest annual clip since 1976. While Europe's investment boom will keep Germany's exports growing, domestic demand will benefit from tax cuts of DM25 billion that will take effect next year as part of the government's tax reform program. As a result, Europe's largest economy should grow by more than three percent next year, nicely timed to counteract the anticipated deceleration in U.S. economic growth.

Japan, too, is expected to maintain a brisk economic growth pace despite the country's political problems. Capital spending is set to increase by 13 percent this year, following a 15 percent increase in 1988. As a result, the real economy could expand by another five percent this year and by at least four percent in 1990, following last year's 5.6 percent clip.

So while many issues still need to be addressed, such as the still hefty global trade imbalances, the U.S. budget deficit and import barriers in Japan, the industrial economies are entering the next decade in an optimistic mood. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/1/89	$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	221.487	+ 2.086	- 11.841
Loans to Depository Inst.	.314	- .063	- 2.032
Float	.767	- .175	- .327
Total Reserve Bank Credit	260.572	+ 2.442	+ 4.899
Treasury Deposits with Federal Reserve Banks	6.436	+ 1.047	+ .239
Currency in Circulation	248.779	- .464	+11.594
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	233.384	- .674	+ 4.716
Member Bank Reserves:	**11/1/89**		
Total Reserves Held	58.695	- 1.217	- 1.286
Excess (Deficiency)	1.166	+ .241	+ .038
Net Free Reserves	.844	+ .553	+ .138
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**Year Ago**
M1 (10/23/89)	789.0	+ 5.8	+ 0.5
M2 (10/23/89)	3,179.6	+ 8.0	+ 4.4
M3 (10/23/89)	4,036.8	+ 2.3	+ 3.9
Domestic Nonfinancial Debt (2nd Q'89)	9,427.7	+ 6.4	+ 8.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/3/89	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.80%	7.64%	7.42%
* Federal Agencies	8.38	8.20	8.10
* Municipal Notes–High Grade (34% Taxable Equivalent)	9.17	9.24	9.32
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.60	8.45	8.20

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.65%	Dec.	8.60%
15- 29 days	8.60	Jan.	8.60
30- 59 days	8.58	Feb.	8.43
60- 89 days	8.50	Mar.	8.30
90-179 days	7.80	Apr.	8.18
180-239 days	7.55	May	8.10
240-270 days	7.55		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	8.65%		
90-120 days	8.50	Effective Rate	8.69%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'89n	$ 5,273	$ 5,202	$ 4,927
Gross National Product (1982 Dollars)*	3rd Q'89n	$ 4,158	$ 4,133	$ 4,043
Percent Change, Annual Rate	3rd Q'89n	2.5	2.5	3.2
Change in Consumer Prices*	Sep '89	2.4%	0.0%	4.8%
Change in MH Cost of Living Index*	Sep '89	6.0%	1.2%	8.4%
Change in Producer Prices*	Sep '89	10.8%	- 4.8%	7.2%
Civilian Employment (Thousands of Persons) †	Oct '89n	117,545	117,456	115,573
Unemployment as % of Civilian Labor Force †	Oct '89n	5.3%	5.3%	5.3%
Personal Income*	Sep '89n	$ 4,469	$ 4,456r	$ 4,180
Leading Indicators Composite Index (1967=100) †	Sep '89n	145.0	144.7r	143.7
Industrial Production Index (1977=100) †	Sep '89	142.3	142.4	138.6
Net Change in Consumer Installment Credit †	Aug '89	$ 3.48	- $ 0.51	$ 5.46
U.S. Merchandise Trade Balance †	Aug '89	- $ 10.77	- $ 8.24	-$ 10.14
Plant and Equipment Expenditures*	4th Q'89	$483.04(a)	$ 481.24(a)	$442.11
Private Housing Starts (Thousands of Units)*	Sep '89	1,263	1,332	1,463
New Construction Expenditures*	Se9 '89n	$ 415.6	$ 415.8r	$ 411.5r
Total Business Inventories †	Aug '89	$ 789.9	$ 787.6	$ 737.6
Total Business Sales †	Aug '89	$ 526.8	$ 511.1	$ 492.2

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. e-Anticipated.

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MANUFACTURERS HANOVER

Financial Digest

Monday, November 20, 1989

Volume XXVI, Number 24

Analysis of Business Trends Plus Selected Financial Indicators

The U.S. Economy Is At a Crossroads

Despite a widespread belief that the seemingly muscular increase in payroll employment in October, accompanied by an acceleration in the pace of average hourly earnings increases, would serve to delay any further easing of monetary policy, the pundits were proven wrong once again. Faced with a pronounced slowing of business activity in several areas of the economy and the virtual collapse of inflation expectations, the Federal Reserve once again eased its monetary stance and prodded interest rates lower. Nor is this step likely to be the last.

It must have been impossible for even the most sanguine member of the Federal Reserve's policy-setting Federal Open Market Committee to ignore the latest signs of economic malaise at last week's meeting. They ranged from a hefty drop in retail sales, to an easing of industrial production, to a softening of factory operating rates. Indeed, some economists would not dismiss entirely doubts that today's soft economic landing might yet become tomorrow's recession. With the economy at a crossroads, the Fed will be on the lookout for further economic weakness, and will respond to forthcoming signs of economic lethargy with additional doses of interest rate relief.

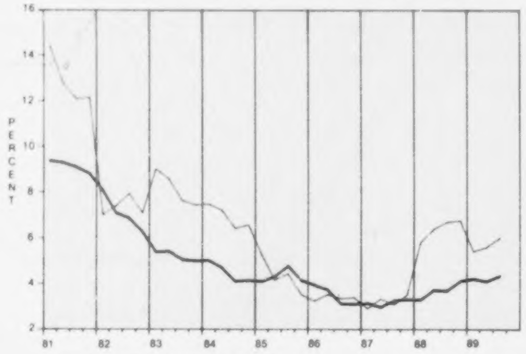
Manufacturers Hanover Economics Department 17/270

Just a month or so ago, the prospect of interest rate cuts seemed distant. For until recently, opinion concerning the health of the economy had been fairly evenly divided between those who believed that the mounting number of gloomy economic statistics was symptomatic of another of the several temporary lulls which have rejuvenated this aging business expansion from time to time, and those who felt that the spreading weakness posed much greater risks. After all, payroll employment was holding up fairly well, manufactured exports were in record territory, and consumer confidence was high. All of this came together in a seemingly upbeat third quarter estimate of gross national product growth: According to the Commerce Department, the economy expanded at an inflation-adjusted 2½ percent annualized clip—the same as recorded in the second period.

The Minuses Exceed the Pluses

Nevertheless, this backward-looking, preliminary estimate of third quarter growth runs counter to more recent economic evidence. Current statistics seem to be signaling a pervasive economic softness spreading beyond the industrial sector, belying the parallels made with the 1986 slowdown. At that time, export and energy-induced industrial weakness was offset by strength in such areas as consumer spending and housing which permitted the economy to dodge the recession bullet. This time around, however, areas of strength are few. The reason that industrial output is faltering, inventories expanding, big-ticket order backlogs ebbing and factory jobs shrinking is not a dearth of foreign demand, but lack of domestic sales. In particular, the consumer appears to be retrenching while housing activity remains depressed.

PRIVATE INDUSTRY WORKERS: WAGES AND SALARIES (THICK) VS. BENEFITS (THIN) (4-QUARTER PERCENT CHANGE)



Source: Bureau of Labor Statistics

With the bottom falling out of automobile sales, retail sales fell one percent in October compared with month-earlier levels, the largest month-over-month drop in more than 2½ years. What is more, not all of this weakness can be attributed to autos. Non-auto retail sales virtually flattened last month and, notwithstanding stepped-up spending for such small-ticket items as personal computers and fax machines, raised the specter of a joyless holiday season for retailers.

Nor will housing provide lift to the economy, as it did three years ago. Whereas housing starts held steady in the 1.8 to 1.9 million unit range throughout the first half of 1986, the number of starts in recent months has been running nearly

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one-third lower than that level. This is hardly surprising especially when you consider that new home sales are experiencing their own freefall, dropping 14 percent in September alone.

Interest Rates Head Lower

There is, however, some good news. This is because the slower pace of business evolving economy-wide is consistent with, and to a large extent promotes, general price stability. In turn, this provides the monetary authorities with sufficient flexibility to loosen their grip on the monetary reins without rekindling inflation expectations. In the third quarter, for example, price pressures clearly abated. The GNP implicit price deflator—the broadest measure of inflation available—rose at a 2.9 percent annual rate, well below fourth-quarter 1988's 4.7 percent rise. Nor does there appear to be much inflation heading our way.

For one thing, raw industrial commodity prices, which quickly reflect shifting demand patterns, have plummeted by more than four percent since the beginning of October. For another, producer prices for intermediate goods, indicative of inflation in the "pipeline", were unchanged in October, after declining in three of the preceding four months. Finally, despite a modest acceleration in the growth of average

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/1/89)	218,179	- 2,092	+ 24,182
New York City (11/8/89)	41,933	- 511	+ 935
Commercial Paper (11/8/89)	513,113	+ 2,163	+ 81,174

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/1/89)	321,481	+ 3,624	+ 21,220
New York City (11/8/89)	60,607	- 1,025	+ 4,169

Total Loans and Leases Gross Adjuste

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/1/89)	1,000,920	+14,902	+ 91,977
New York City (11/8/89)	82,209	- 7,396	+ 7,519

Financial Markets

	Friday 11/17/89	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.93%	- .03	- .27
180-Day Bills†	7.86	- .11	- .51
Longest Bills†	7.68	- .13	- .89
Recent Issues:			
8⅝s 10/15/91	7.76	- .22	
8¼s 9/30/93	7.78	- .06	
7⅞s 11/15/99	7.85	NA	
8⅛s 8/15/19	7.92	+ .03	
Municipals:			
Bond Buyer—20 Bond Index* (11/16/89)	7.12%	- .08	- .38
Blue List Total ($ Million)	$1,238	- $188	- $ 246
30-Day Visible Supply ($ Million)	$1,113	- $189	- $ 995
Total	$2,351	- $377	- $1,241
Corporates:			
Moody's Aa Composite (11/16/89)	9.11	- .02	- .66
30-Day Visible Supply ($ Million)	$4,850	- $275	+$3,225
Stocks:			
Dow-Jones Avaragas:			
Industrials	2,652.66	+ 27.05	+590.25
Transportation	1,191.15	- 12.26	+294.44
Utilities	221.08	+ .13	+ 39.36
65 Stocks	1,007.31	+ 2.83	+225.37
N.Y.S.E. Composite Index	189.28	+ 1.38	+ 39.10
N.Y.S.E. Avg. Daily Vol. for Week (000's)	148,392	- 372	+12,360

*34% Taxable equivalent 10.79%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/17/89	Week Ago
Overnight	8.38%	8.38%
1 month	8.38	8.44
3 month	8.38	8.44
6 month	8.19	8.25
1 year	8.13	8.25

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/3/89)	Currency Per U.S. $	Week Ago
Belgium	38.67	38.93
Canada	1.1689	1.1690
France	6.2650	6.2775
Germany	1.8395	1.8605
Italy	1353.50	1356.70
Japan	143.99	143.20
Mexico	2604.00	2599.00
Netherlands	2.0810	2.0900
South Korea	672.30	672.10
Switzerland	1.6340	1.6360
Taiwan	25.95	25.99
U.K.*	1.5745	1.5795

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR (11/17/89) (Adjusted for Inflation)	+0.1%	-3.1%

hourly earnings in October, wage growth remains remarkably steady. As shown in the chart, wage gains for private industry workers have been stuck in the three to four percent neighborhood for years.

To be sure, such benefit costs as employer contributions to Social Security and health insurance have been rising rapidly and, in the third quarter, were six percent higher than a year ago. But, here, too, the inflation impact has been muted. With consumer resistance to higher prices fierce, firms have found themselves trying to pass along a large chunk of these higher benefit costs—not to the consumer, but to their employees. The results have been mixed, with success in some industries, but work stoppages in others.

The becalmed inflation environment provides the Fed with a window of opportunity to respond to today's economic slowdown without undue hesitancy. Short-term interest rates have already moved a notch lower and money supply growth has quickened. However, since the signature of the Alan Greenspan Fed has been to move cautiously, pausing after each step to examine the latest-breaking information, interest rates will slowly zig-zag their way lower in coming months, rather than nose-dive abruptly. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/15/89	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	221.415	- 1.862	- 14.734
Loans to Depository Inst.	.341	+ .137	- 3.159
Float	1.206	- .011	+ .037
Total Reserve Bank Credit	261.245	- 1.457	+ 1.737
Treasury Deposits with Federal Reserve Banks	4.757	- .604	- .452
Currency in Circulation	251.338	+ 1.208	+10.712
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	236.514	+ 1.799	+ 7.012
Member Bank Reserves:	11/15/89		
Total Reserves Held	59.823	+ 1.176	- 2.147
Excess (Deficiency)	.763	- .367	- .840
Net Free Reserves	.510	- .298	- .698
		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
Monetary Aggregates †			
M1 (11/6/89)	788.3	+ 5.7	+ 0.2
M2 (11/6/89)	3,190.3	+ 7.5	+ 4.4
M3 (11/6/89)	4,035.7	+ 2.5	+ 3.8
Domestic Nonfinancial Debt (2nd Q'89)	9,427.7	+ 6.4	+ 8.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/11/89	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.68%	7.47%	7.18%
* Federal Agencies	8.38	8.20	8.10
* Municipal Notes–High Grade (34% Taxable Equivalent)	7.95	8.33	8.71
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.40	8.25	8.00

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.38%	Dec.	8.36%
15- 29 days	8.35	Jan.	8.35
30- 59 days	8.30	Feb.	8.20
60- 89 days	8.20	Mar.	8.05
90-179 days	7.97	Apr.	7.93
180-239 days	7.55	May	7.93
240-270 days	7.55		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	8.35%		
90-120 days	8.28	Effective Rate	8.38%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'89	$ 5,273	$ 5,202	$ 4,927
Gross National Product (1982 Dollars)*	3rd Q'89	$ 4,158	$ 4,133	$ 4,043
Percent Change, Annual Rate	3rd Q'89	2.5	2.5	3.2
Change in Consumer Prices*	Sep '89	2.4%	0.0%	4.8%
Change in MH Cost of Living Index*	Sep '89	6.0%	1.2%	8.4%
Change in Producer Prices*	Oct '89n	4.8%	10.8%	1.2%
Civilian Employment (Thousands of Persons) †	Oct '89	117,545	117,456	115,573
Unemployment as % of Civilian Labor Force †	Oct '89	5.3%	5.3%	5.3%
Personal Income*	Sep '89	$ 4,469	$ 4,456	$ 4,119
Leading Indicators Composite Index (1967=100) †	Sep '89	145.0	144.7	143.7
Industrial Production Index (1977=100) †	Oct '89n	141.4	142.4r	139.4
Net Change in Consumer Installment Credit †	Sep '89n	$ 0.61	$ 2.66r	$ 1.89
U.S. Merchandise Trade Balance †	Sep '89n	- $ 7.94	- $ 10.10r	-$ 9.17
Plant and Equipment Expenditures*	4th Q'89	$483.04(a)	$ 481.24(a)	$442.11
Private Housing Starts (Thousands of Units)*	Oct '89n	1,420	1,268 r	1,532
New Construction Expenditures*	Sep '89	$ 415.6	$ 415.8	$ 411.5
Total Business Inventories †	Sep '89n	$ 791.8	$ 790.4r	$ 744.0r
Total Business Sales †	Sep '89n	$ 524.6	$ 526.3r	$ 491.6r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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MANUFACTURERS HANOVER

Financial Digest

Volume XXVI, Number 25

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Analysis of Business Trends Plus Selected Financial Indicators

Our Trade Deficit Shrinks

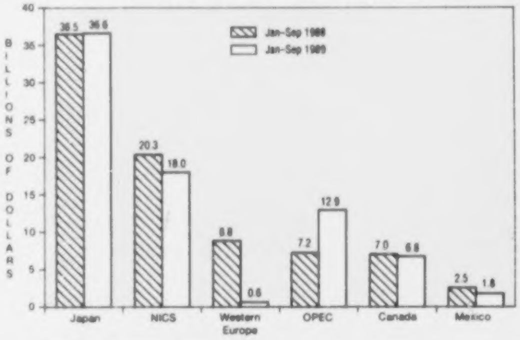
Despite the sharp rise in the dollar earlier this year, the U.S. foreign trade picture has continued to improve. Our trade deficit narrowed to a seasonally adjusted $7.94 billion in September, a figure that was far lower than had been expected in the foreign exchange community. However, while September's deficit was the smallest monthly shortfall posted in almost five years, it was greeted with reserve both by the Bush Administration and by the foreign exchange markets. This is because they interpreted the decline in imports as one more sign of a slowdown in U.S. economic activity.

The Commerce Department also announced that August's trade deficit, initially estimated at $10.8 billion, was revised downward to $10.1 billion. While both the September and the August trade figures deviated significantly from this year's monthly average of $8.9 billion, the average for the third quarter was lower than the previous three months as well as when compared with year-ago levels. The average monthly trade deficit for the third quarter of this year narrowed to $8.7 billion from $8.8 billion in the April-June quarter, and was almost seven percent below the $9.3 billion monthly average recorded in 1988's third quarter. What is more, September's shortfall brings the trade deficit for the first nine months of this year to $80.42 billion, some nine percent below last year's figure of $87.94 billion, suggesting that the trade gap for the entire year should come in at around $105-$110 billion compared with $118½ billion in 1988, and a whopping $153 billion in 1987.

Most of September's improvement came on the import side of the ledger, a reflection of the slowdown in manufacturing activity that has occurred in recent months. Paced by a $900 million decline in industrial materials and supplies and a $700 million decline in capital goods, total imports fell by 3.9 percent in September from the previous month, to $39.08 billion.

At the same time, although the rate of export growth has decelerated from the rapid clip of earlier this year, foreign sales are still running close to record levels. Led by a surge in orders for U.S. aircraft, exports in September totaled $31.14 billion, up 1.9 percent from August and just shy of the record $31.29 billion set in June. During the first nine months of this year, exports have increased by almost 15 percent from last year's first three quarters, or nearly twice the eight percent pace of import growth.

U.S. MERCHANDISE TRADE DEFICIT
WITH SELECTED TRADING PARTNERS



Source: Commerce Department

The Improvement is Widespread

Looking beneath the surface, the United States has pared its trade deficit with almost all of its major trading partners this year, except Japan, and, reflecting the rebound of oil prices, the OPEC nations (see chart). The biggest improvement has been with the 22 countries of Western Europe. Despite the sharp rise of the dollar earlier this year, the U.S. trade shortfall with Western Europe shrank to a mere $640 million in the first nine months of the year from $8.8 billion in the year-earlier period. In fact, the United States has actually posted a trade surplus this year with the 12-member European Community (EC)—to the tune of $1.2 billion—versus a deficit of $6.7 billion in the first three quarters of 1988. In particular, we have even managed to cut our trade deficit with West Germany by more than 30 percent this year, a period which has seen that country's trade surplus with the rest of the world soar to record levels.

During the first nine months of this year, the United States also reduced its trade deficit with Canada, our largest trading partner, to $6.75 billion from $7.02 billion in the previous year, while our shortfall with Mexico, our third

Manufacturers Hanover Economics Department 17/270

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largest trading partner following Canada and Japan, plunged by over 30 percent to $1.77 billion, reflecting Mexico's efforts to liberalize its economy over the past few years. So, too, the deficit with the newly industrialized countries (NICs) of East Asia (Taiwan, Korea, Hong Kong, and Singapore), a region where trade progress had been extremely slow until now, shrank by some $2½ billion to $17.98 billion during the first three quarters of this year. Indeed, the only one of our major trading partners with whom our bilateral deficit widened was Japan. Our trade gap went from $36.49 billion in the first nine months of 1988, to $36.61 in the same period this year.

Such results hardly support the claim that U.S. trade balance progress has stalled. Indeed, there is a good chance that our annual trade deficit could fall below $100 billion next year for the first time since 1983. For one thing, the slowdown in U.S. economic activity indicates further reductions in import demand down the road. For another, the robust economic growth rates of many of our trading partners should enable the United States to post higher export totals in the coming months. Finally, with the dollar currently well within the preferred trading range of 1.70 to 1.90 marks and only just outside of the 120 to 140 yen target band, a more competitive exchange rate bodes well for

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	**Latest Week**	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (11/15/89)	218,435	- 304	+ 24,384
New York City (11/22/89)	41,804	- 799	+ 494
Commercial Paper (11/22/89)	516,066	+ 1,126	+ 76,173

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	**Latest Week**	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (11/15/89)	320,342	+ 2,022	+ 19,943
New York City (11/22/89)	60,516	- 890	+ 4,700

Total Loans and Leases Gross Adjusted

	Latest Week	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (11/15/89)	994,549	+ 6,207	+ 87,662
New York City (11/22/89)	182,725	- 3,635	+ 8,923

Financial Markets

	Friday 12/1/89	**Change Since Week Ago**	**Change Since Year Ago**
U.S. Governments, Closing Yields:			
90-Day Bills†	7.76%	+ .12	- .59
180-Day Bills†	7.73	- .13	- .97
Longest Bills†	7.64	+ .07	- 1.28
Recent Issues:			
7⅝s 11/30/89	7.68	NA	
8¼s 9/30/93	7.74	+ .03	
7⅞s 11/15/99	7.80	-0-	
8⅛s 8/15/19	7.88	-0-	
Municipals:			
Bond Buyer—20 Bond Index* (11/30/89)	7.04%	- .04	- .62
Blue List Total ($ Million)	$1,177	- $ 34	- $ 282
30-Day Visible Supply ($ Million)	$3,200	+ $369	+$1,319
Total	$4,377	+ $335	+$1,037
Corporates:			
Moody's Aa Composite (11/30/89)	9.13	-0-	- .65
30-Day Visible Supply ($ Million)	$2,065	+ $295	+$ 620
Stocks:			
Dow-Jones Averages:			
Industrials	2,747.65	+ 72.10	+657.32
Transportation	1,202.35	+ 26.32	+269.15
Utilities	227.81	+ 6.23	+ 44.84
65 Stocks	1,034.97	+ 26.03	+237.09
N.Y.S.E. Composite Index	193.66	+ 3.37	+ 40.64
N.Y.S.E. Avg. Daily Vol. for Week (000's)	160,760	+ 33,530	+28,004

*34% Taxable equivalent 10.67%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	**Friday 12/1/89**	**Week Ago**
Overnight	8.43%	8.38%
1 month	8.56	8.38
3 month	8.38	8.38
6 month	8.13	8.19
1 year	8.00	8.12

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/1/89)	**Currency Per U.S. $**	**Week Ago**
Belgium	37.44	37.99
Canada	1.1672	1.1701
France	6.0850	6.1600
Germany	1.7828	1.8082
Italy	1313.00	1334.00
Japan	143.30	143.83
Mexico	2619.00	2604.00
Netherlands	2.0105	2.0405
South Korea	672.70	672.00
Switzerland	1.5953	1.6117
Taiwan	26.14	26.05
U.K.*	1.5640	1.5640

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (12/1/89) (Adjusted for inflation)	**Change Since Week Ago**	**Change Since 2/27/85**
	+0.1%	-3.2%

further U.S. trade progress.

But the Dollar Will Fall Further

Although the foreign exchange markets' initial reaction to September's trade figures was to push the dollar higher, its appreciation was quickly reversed by interest rate considerations. The fall in imports was interpreted as another sign of a weakening U.S. economy, which, in turn, is supposed to prompt the Federal Reserve to ease U.S. interest rates even further to avoid a recession. At the same time, Germany's robust economy and strong inflation pressures have raised market expectations of another rise in German interest rates by early next year.

Less than a year ago, U.S. short-term interest rates were above nine percent, while German rates were below five percent. Since then, U.S. rates have fallen by around 100 basis points while German interest rates have almost doubled, reducing the U.S. interest rate advantage to barely one quarter percentage point. If current trends continue, U.S. interest rates could soon dip below German rates for the first time in over a decade. Thus, with interest rate differentials and economic fundamentals, including a faster growth pace, a lower inflation rate and a hefty current account surplus, clearly in Germany's favor, the days of the high-flying dollar are probably over. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/29/89	**$ Change Since Week Ago**	**Year Ago**
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	226.904	- 3.101	- 11.831
Loans to Depository Inst.	.680	+ .478	- 1.687
Float	.971	+ .122	+ .476
Total Reserve Bank Credit	264.484	+ 3.494	+ 5.056
Treasury Deposits with Federal Reserve Banks	5.093	+ .643	- .044
Currency in Circulation	253.641	+ .643	+11.462
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	233.024	- 4.007	- 2.107
Member Bank Reserves:	**11/29/89**		
Total Reserves Held	59.606	- .199	- .901
Excess (Deficiency)	.868	+ .024	+ .233
Net Free Reserves	.450	- .142	+ .514
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**Year Ago**
M1 (11/20/89)	791.0	+ 5.5	+ 0.3
M2 (11/20/89)	3,200.2	+ 4.5	+ 7.4
M3 (11/20/89)	4,049.8	+ 3.3	+ 3.9
Domestic Nonfinancial Debt (2nd Q'89)	9,427 7	+ 6.4	+ 8.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/1/89	**3 Months**	**6 Months**	**1 Year**
‡ U.S. Treasury Bills	7.55%	7.37%	7.16%
* Federal Agencies	8.00	7.90	7.90
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.33	8.71	9.09
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.30	8.15	8.00

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.40%	Jan.	8.48%
15- 29 days	8.35	Feb.	8.25
30- 59 days	8.38	Mar.	8.08
60- 89 days	8.18	Apr.	7.95
90-179 days	7.93	May	7.83
180-239 days	7.55	Jun.	7.73
240-270 days	7.55		

‡ Industrial Paper–Prime			
30- 89 days	8.45%	†Federal Funds	
90-120 days	8.25	Effective Rate	8.44%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		**Previous Period**	**Year Ago Period**
Gross National Product (Current Dollars)*	3rd Q'89	$ 5,279 r	$ 5,202	$ 4,927
Gross National Product (1982 Dollars)*	3rd Q'89	$ 4,160 r	$ 4,133	$ 4,043
Percent Change, Annual Rate	3rd Q'89	2.7 r	2.5	3.2
Change in Consumer Prices*	Oct '89n	6.0%	2.4%	4.8%
Change in MH Cost of Living Index*	Oct '89n	7.2%	6.0%	6.0%
Change in Producer Prices*	Oct '89	4.8%	10.8%	1.2%
Civilian Employment (Thousands of Persons) †	Oct '89	117,545	117,456	115,573
Unemployment as % of Civilian Labor Force †	Oct '89	5.3%	5.3%	5.3%
Personal Income*	Oct '89n	$ 4,510	$ 4,470r	$ 4,180
Leading Indicators Composite Index (1967=100) †	Oct '89n	144.8	145.2r	144.0
Industrial Production Index (1977=100) †	Oct '89	141.4	142.4	139.4
Net Change in Consumer Instalment Credit †	Sep '89	$ 0.61	$ 2.66	$ 1.89
U.S. Merchandise Trade Balance †	Sep '89	- $ 7.94	- $ 10.10	-$ 9.17
Plant and Equipment Expenditures*	4th Q'89	$483.04(a)	$ 481.24(a)	$442.11
Private Housing Starts (Thousands of Units)*	Oct '89	1,420	1,268	1,532
New Construction Expenditures*	Oct '89n	$ 420.1	$ 415.9r	$ 411.1
Total Business Inventories †	Sep '89	$ 791.8	$ 790.4	$ 744.0
Total Business Sales †	Sep '89	$ 524.6	$ 526.3	$ 491.6

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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Financial Digest

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Analysis of
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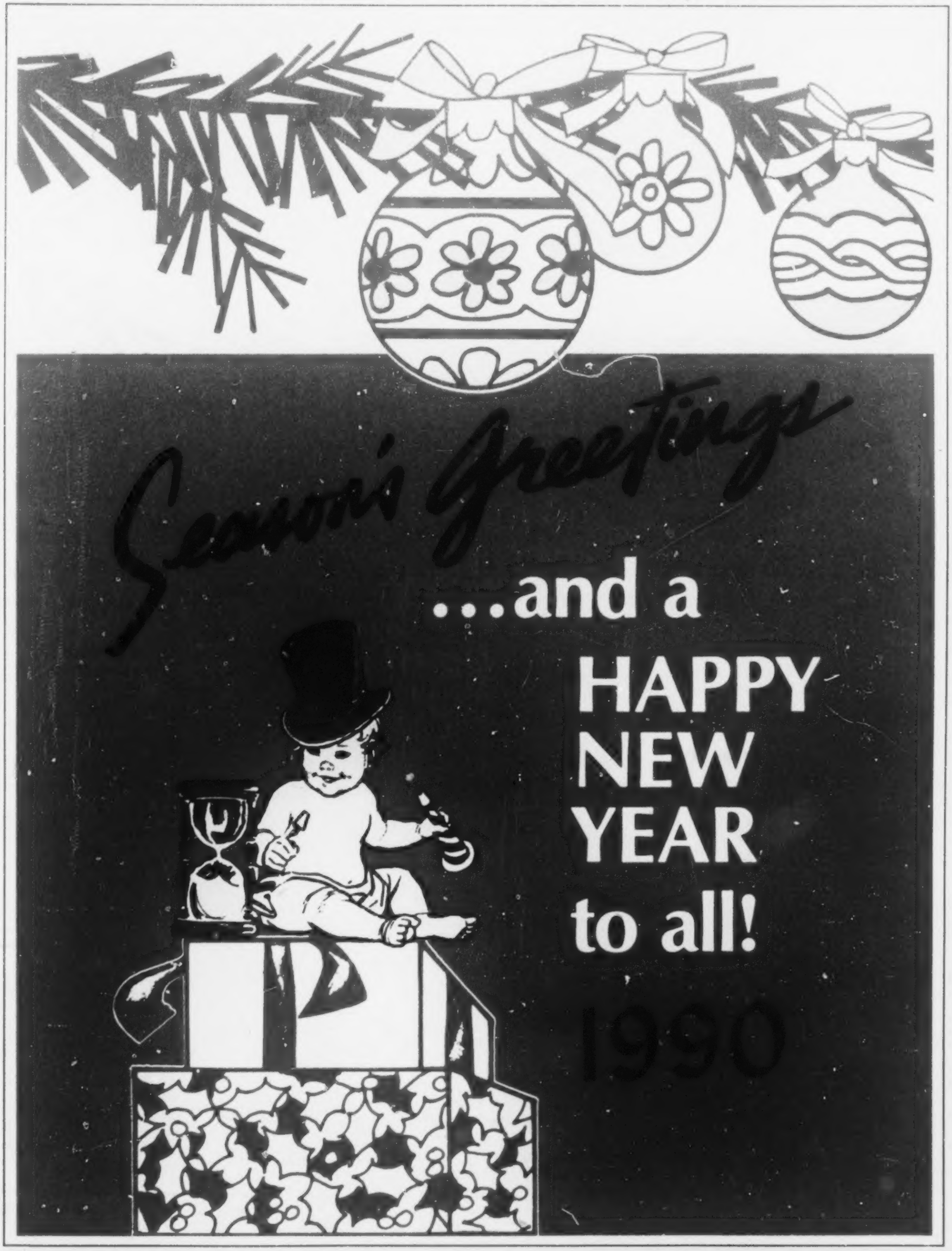
Season's Greetings
...and a
HAPPY
NEW
YEAR
to all!
1990

Manufacturers
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Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 o; more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/29/89)	217,748	- 461	+ 23,284
New York City (12/6/89)	41,738	+ 162	- 119
Commercial Paper (12/6/89)	519,230	+ 2,961	+ 76,262

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/29/89)	319,001	- 1,053	+ 17,756
New York City (12/6/89)	60,205	+ 164	+ 4,837

Total Loans and Leases Gross Adjust

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/29/89)	992,536	+ 445	+ 80,793
New York City (12/6/89)	183,331	+ 669	+ 8,843

Financial Markets

	Friday 12/15/89	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.86%	+ .04	- .55
180-Day Bills†	7.76	+ .07	- .91
Longest Bills†	7.62	- .07	- 1.49
Recent Issues:			
7¾s 11/30/91	7.73	- .02	
8¼s 9/30/93	7.75	- .03	
7⅞s 11/15/99	7.80	- .01	
8⅛s 8/15/19	7.86	- .02	
Municipals:			
Bond Buyer—20 Bond Index* (12/14/89)	6.99%	- .01	- .67
Blue List Total ($ Million)	$1,579	+ $109	+ $216
30-Day Visible Supply ($ Million)	$1,755	- $385	+ $284
Total	$3,334	- $776	+ $500
Corporates:			
Moody's Aa Composite (12/14/89)	9.12	+ .02	- .71
30-Day Visible Supply ($ Million)	$1,150	- $612	- $620
Stocks:			
Dow-Jones Averages:			
Industrials	2,739.55	+ 8.11	+588.84
Transportation	1,170.70	- 38.76	+209.75
Utilities	235.98	+ 7.23	+ 51.47
65 Stocks	1,031.14	- 2.89	+212.38
N.Y.S.E. Composite Index	193.47	+ .55	+ 38.31
N.Y.S.E. Avg. Daily Vol. for Week (000's)	186,012	+ 34,464	+41,200

*34% Taxable equivalent 10.59%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/15/89	Week Ago
Overnight	8.38%	8.38%
1 month	8.75	8.63
3 month	8.44	8.31
6 month	8.19	8.13
1 year	8.13	8.06

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/15/89)	Currency Per U.S. $	Week Ago
Belgium	36.52	37.24
Canada	1.1607	1.1630
France	5.9375	6.0350
Germany	1.7265	1.7685
Italy	1292.50	1302.35
Japan	143.85	144.10
Mexico	2633.00	2626.00
Netherlands	1.9600	2.0000
South Korea	674.40	673.40
Switzerland	1.5510	1.5970
Taiwan	26.15	26.05
U.K.*	1.6050	1.5810

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (12/15/89) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.3%	-3.5%

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Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/13/89	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	230.047	+ .519	- 10.633
Loans to Depository Inst.	.132	- .039	- 1.880
Float	.851	+ .160	- .491
Total Reserve Bank Credit	267.743	+ 1.156	+ 5.386
Treasury Deposits with Federal Reserve Banks	4.475	- .687	- .332
Currency in Circulation	255.349	+ 1.508	+11.959
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	233.712	- 2.245	- .801
Member Bank Reserves:	**12/13/89**		
Total Reserves Held	60.643	+ 1.008	- 1.563
Excess (Deficiency)	.666	- .339	- .310
Net Free Reserves	.536	- .051	+ .045

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (12/4/89)	789.7	+ 6.9	+ 0.3
M2 (12/4/89)	3,207.4	+ 8.1	+ 4.5
M3 (12/4/89)	4,056.6	+ 4.2	+ 3.7
Domestic Nonfinancial Debt (2nd Q'89)	9,427.7	+ 6.4	+ 8.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/15/89	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.59%	7.38%	7.11%
* Federal Agencies	8.10	8.05	7.90
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.52	8.71	8.71
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.33	8.23	8.09

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.48%	Jan.	8.75%
15- 29 days	8.63	Feb.	8.45
30- 59 days	8.55	Mar.	8.27
60- 89 days	8.20	Apr.	8.15
90-179 days	7.90	May	8.03
180-239 days	7.50	Jun.	7.90
240-270 days	7.50		

‡ Industrial Paper–Prime			
30- 89 days	8.55%	†Federal Funds	
90-120 days	8.30	Effective Rate	8.56%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'89	$ 5,279	$ 5,202	$ 4,927
Gross National Product (1982 Dollars)*	3rd Q'89	$ 4,160	$ 4,133	$ 4,043
Percent Change, Annual Rate	3rd Q'89	2.7	2.5	3.2
Change in Consumer Prices*	Oct '89	6.0%	2.4%	4.8%
Change in MH Cost of Living Index*	Oct '89	7.2%	6.0%	6.0%
Change in Producer Prices*	Nov '89n	- 1.2%	4.8%	3.6%
Civilian Employment (Thousands of Persons) †	Nov '89n	117,786	117,545	115,947
Unemployment as % of Civilian Labor Force †	Nov '89n	5.4%	5.3%	5.4%
Personal Income*	Oct '89	$ 4,510	$ 4,470	$ 4,180
Leading Indicators Composite Index (1967=100) †	Oct '89	144.8	145.2	144.0
Industrial Production Index (1977=100) †	Nov '89n	141.5	141.3r	139.9
Net Change in Consumer Installment Credit †	Oct '89n	$ 3.34	$ 1.37r	$ 2.58
U.S. Merchandise Trade Balance †	Nov '89n	- $ 10.20	- $ 8.51r	-$ 9.23
Plant and Equipment Expenditures*	4th Q'89	$483.04(a)	$ 481.24(a)	$442.11
Private Housing Starts (Thousands of Units)*	Oct '89	1,420	1,268	1,532
New Construction Expenditures*	Oct '89	$ 420.1	$ 415.9	$ 411.1
Total Business Inventories †	Oct '89n	$ 793.9	$ 790.6r	$ 743.0r
Total Business Sales †	Oct '89n	$ 519.2	$ 522.8r	$ 498.6r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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MANUFACTURERS
HANOVER

Financial
Digest

Volume XXVII, Number 1

Tuesday, January 2, 1990

Analysis of
Business
Trends Plus
Selected
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Indicators

Is Economic Weakness Exaggerated?

As the economy crosses into the new year, there are not only plenty of signs that its once robust vigor has ebbed, there is hardly an analyst astir who does not foresee even slower growth and lower short-term interest rates ahead. Nor does such a view seem unreasonable, especially when you consider that automobile sales have plunged to the lowest levels since the last recession, construction is languishing, initial claims for state unemployment insurance are rising and factory jobs are contracting. Even the Federal Reserve seems to have been swayed by the pundits' prevailing opinion. At its mid-December, policy-setting Federal Open Market Committee meeting, the central bank apparently again decided to ease its grip on the monetary reins—by some counts, for the sixth time last year—driving the Federal funds rate lower by another one quarter of one percent to 8¼ percent. And, if you care to believe the majority, another easing move could be near.

Although prospects for additional monetary ease still appear bright, a word of caution is in order. At this juncture, it would be unwise for the bond crowd to rule out entirely the possibility of a snapback in economic growth early this year for several reasons. For one thing, despite the barrage of negative economic statistics which sparked the latest easing action, there are some which point in the other direction. For another, although the manufacturing sector is widely assumed to be stuck in neutral, today's lethargy is a far cry from four years ago, when manufacturing was again at the epicenter of a similar recession scare. And, just as during that time, the Fed has shifted policy, sending interest rates declining along with the dollar. This is precisely the same combination that touched off the manufacturing-led growth spurt of the past 2½ years—and kept it going after the equity market "meltdown" of October 1987. If history repeats itself, the principal risk to the standard forecast of slower growth and lower interest rates in the months ahead may not be recession but faster growth—and rising interest rates.

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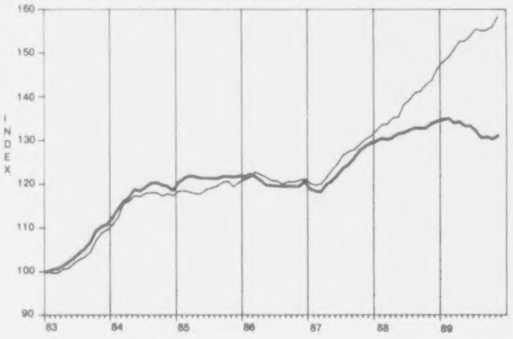
17/270

Take, for example, the latest batch of economic statistics. While it is virtually impossible to determine meaningful trends from just one month's number, notwithstanding the claims of market "watchers" to the contrary, it would seem reasonable that if the economy was in the process of unraveling, most—if not all—economic indicators would be either falling or, at best, treading water. Yet, in recent weeks, there have been a number of seemingly upbeat reports, ranging from anecdotal evidence of a good Christmas selling season, hefty gains in payroll employment and personal income, a sizable increase in factory orders and shipments, and further growth in already bulging order backlogs. Although total employment growth has moderated and industrial output has flattened, the implications of these developments are not entirely negative, since they do tend to keep a lid on wages and, by extension, inflation.



BACKLOG OF DURABLE GOODS ORDERS: TOTAL (THIN) VS. NON-TRANSPORTATION (THICK) <JANUARY 1983=100>

Source: Commerce Department

Industry's Strengths

Some of the same question marks surround the health of manufacturing in particular. By some yardsticks, today's industry downturn is far less severe, and perhaps more readily reversible, than it was in 1985-86, when the energy industry plumbed new depths of despair, industrial exports were shrinking and a large chunk of the nation's heartland was being casually written off as an unsalvageable "rust belt". Of most concern are the 164,000 factory jobs lost since March. However, this is not only far from the 600,000 jobs shed in 1985-86, but it is much more concentrated. Fully one-third of the jobs lost last year were directly attributable to the drop in new-car sales, whereas in 1985-86, the

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job losses were widely diffused, with the auto industry accounting for only four percent. And, while more cuts are undoubtedly in the offing, there's still a long way to go before reaching 600,000, and it looks like the bulk will again be auto industry layoffs.

Other pronounced differences exist, making for a less than bleak outlook. Order backlogs, for example, are a third bigger today than three years ago and are rising, whereas they were flat in 1985-86. To be sure, while commercial aircraft represents a sizable portion of the total, this is probably more of a stabilizing strength, than a lurking weakness, as some suggest. In light of airline deregulation here, and on tap in Europe, not to mention the unquestionable need to replace vast numbers of aged jets, long-dated aircraft orders may well be less prone to the sudden cancellations which have plagued capital goods producers at the first hint of an economic downturn in the past. What is more, industrial exports are booming, and should continue to do so in light of the strong economic growth prospects prevailing overseas.

A Repeat Policy Response

Indeed, bulging backlogs and exports go to the heart of the difference in the degree of weakness affecting manufacturing now compared

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/13/89)	217,158	- 584	+ 21,203
New York City (12/13/89)	41,534	- 207	+ 290
Commercial Paper (12/13/89)	521,156	+ 1,926	+ 73,658

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/13/89)	318,109	+ 241	+ 18,014
New York City (12/13/89)	60,330	+ 549	+ 5,423

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/13/89)	994,297	+ 75	+ 81,632
New York City (12/13/89)	184,404	+ 1,330	+ 10,047

Financial Markets

	Thursday 12/28/89	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.91%	+ .09	- .41
180-Day Bills†	7.93	+ .10	- .72
Longest Bills†	7.74	+ .05	- 1.28
Recent Issues:			
7⅝s 12/31/90 (When Issued)	7.87	+ .14	
7⅝s 12/31/93 (When Issued)	7.84	+ .10	
7⅞s 11/15/99	7.90	+ .10	
8⅛s 8/15/19	7.96	+ .09	
Municipals:			
Bond Buyer—20 Bond Index* (12/28/89)	6.97%	+ .01	- .60
Blue List Total ($ Million)	$1,525	+ $ 23	+ $439
30-Day Visible Supply ($ Million)	$1,177	+ $ 122	- $ 1
Total	$2,702	+ $ 145	+ $438
Corporates:			
Moody's Aa Composite (12/28/89)	9.13	+ .05	- .71
30-Day Visible Supply ($ Million)	$1,910	+ $1,250	+ $328
Stocks:			
Dow-Jones Averages:			
Industrials	2,732.30	+ 41.17	+549.08
Transportation	1,174.43	+ 30.76	+203.38
Utilities	235.41	+ 2.01	+ 49.24
65 Stocks	1,030.16	+ 17.70	+200.76
N.Y.S.E. Composite Index	193.58	+ 3.08	+ 36.77
N.Y.S.E. Avg. Daily Vol. for Week (000's)	113,533	- 54,355	+16,256

*34% Taxable equivalent 10.56%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Thursday 12/28/89	Week Ago
Overnight	9.50%	8.19%
1 month	8.38	8.63
3 month	8.25	8.38
6 month	8.19	8.13
1 year	8.13	8.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/28/89)	Currency Per U.S. $	Week Ago
Belgium	35.35	36.28
Canada	1.1587	1.1589
France	5.7475	5.8560
Germany	1.6875	1.7135
Italy	1261.50	1280.00
Japan	142.45	143.25
Mexico	2646.00	2640.00
Netherlands	1.8975	1.9485
South Korea	677.90	676.60
Switzerland	1.5315	1.5490
Taiwan	26.17	26.15
U.K.*	1.6172	1.6190

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (12/28/89) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/8
	-0.2%	-3.8%

with the mid-1980s. In 1985-86, industry was experiencing deep-seated, systemic difficulties associated with the protracted overvaluation of the dollar in the foreign exchange markets and the sudden free fall in energy prices, both of which took years to overcome. Today's travail, in contrast, is less deeply rooted, and more quickly remedied, a reflection of the monetary restraint of 1988, and the success of domestic auto manufacturers in convincing consumers to bunch their purchases of 1990 model year vehicles in the late summer of 1989. While no one has yet figured out a way to jump-start auto sales, the period of monetary restraint is being reversed.

Three years ago, the combination of interest rate relief and dollar depreciation sparked strong economic growth in 1987-88. More recently, the Federal funds rate has declined from a peak of nearly ten percent last April, to around 8¼ percent today. At the same time, the dollar has retreated from a level that had been above two Deutschemarks to below 1.70 marks. This same prescription rejuvenated the economy in the past, and while the end result may not turn out to be the same, the policy approach is *deja vu*—one reason for the hesitancy with which the Fed has loosened its monetary grip, and the justifiable caution with which portfolio managers should view the bond market.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/20/89	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	229.385	- .662	- 12.704
Loans to Depository Inst.	.189	+ .057	- 1.143
Float	1.310	+ .477	- .457
Total Reserve Bank Credit	267.553	- .157	+ 3.647
Treasury Deposits with Federal Reserve Banks	4.402	- .073	- 2.060
Currency in Circulation	256.683	+ 1.334	+12.371
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	232.269	- 1.443	- 3.329
Member Bank Reserves:	**12/13/89**		
Total Reserves Held	60.640	+ 1.000	- 1.566
Excess (Deficiency)	.770	- .239	- .206
Net Free Reserves	.641	+ .050	+ .150

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (12/18/89)	795.7	+ 7.5	+ 0.4
M2 (12/18/89)	3,215.6	+ 7.8	+ 4.6
M3 (12/18/89)	4,036.6	+ 3.2	+ 3.3
Domestic Nonfinancial Debt (3rd Q'89)	9,604.5	+ 7.5	+ 8.2

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 12/28/89	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.72%	7.58%	7.28%
* Federal Agencies	8.05	7.95	7.85
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.52	8.71	8.71
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.29	8.20	8.07

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	9.07%	Jan.	9.25%
15- 29 days	8.60	Feb.	8.55
30- 59 days	8.28	Mar.	8.28
60- 89 days	8.15	Apr.	8.15
90-179 days	7.90	May	8.05
180-239 days	7.50	Jun.	7.92
240-270 days	7.50		

‡ Industrial Paper–Prime			
30- 89 days	8.58%	†Federal Funds	
90-120 days	8.23	Effective Rate	9.50%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'89	$ 5,281 r	$ 5,202	$ 4,927
Gross National Product (1982 Dollars)*	3rd Q'89	$ 4,163 r	$ 4,133	$ 4,043
Percent Change, Annual Rate	3rd Q'89	3.0 r	2.5	3.2
Change in Consumer Prices*	Nov '89n	4.8%	6.0%	3.6%
Change in MH Cost of Living Index*	Nov '89n	4.8%	7.2%	2.4%
Change in Producer Prices*	Nov '89	- 1.2%	4.8%	3.6%
Civilian Employment (Thousands of Persons) †	Nov '89	117,786	117,545	115,947
Unemployment as % of Civilian Labor Force †	Nov '89	5.4%	5.3%	5.4%
Personal Income*	Nov '89n	$ 4,541	$ 4,503r	$ 4,169
Leading Indicators Composite Index (1967=100) †	Oct '89	144.8	145.2	144.0
Industrial Production Index (1977=100) †	Nov '89	141.5	141.3	139.9
Net Change in Consumer Installment Credit †	Oct '89	$ 3.34	$ 1.37	$ 2.58
U.S. Merchandise Trade Balance †	Oct '89	- $ 10.20	- $ 8.51	-$ 9.23
Plant and Equipment Expenditures*	1st Q'90n	$ 503.5	$ 485.5r	$ 459.5
Private Housing Starts (Thousands of Units)*	Nov '89n	1,361	1,428r	1,567
New Construction Expenditures*	Oct '89	$ 420.1	$ 415.9	$ 411.1
Total Business Inventories †	Oct '89	$ 793.9	$ 790.6	$ 743.0
Total Business Sales †	Oct '89	$ 519.2	$ 522.8	$ 498.6

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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**Financial
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MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 2

Friday, January 12, 1990

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

Reforms in the East Will Help The West

It is still too early to predict all of the ramifications for the world economy of the rapid changes that are taking place in Eastern Europe today, since many of them will depend upon these nations' ability to implement difficult economic reforms over the longer term. However, these historic events have already had a major impact upon Western financial markets. Perhaps the most noticeable has been the emergence of the Deutschemark as the world's most sought after currency. Fueled by perceptions in the foreign exchange markets that the political and economic changes occurring in Eastern Europe will not only benefit the West German economy but could also result in even higher West German interest rates, the Deutschemark has risen by ten percent against the U.S. dollar, more than five percent versus the U.K. pound and by almost 12 percent against the Japanese yen since the crumbling of the Berlin Wall on November 9.

The driving force behind the Deutschemark's rapid appreciation has been traders' beliefs that West Germany's strong links with Eastern Europe and the influx of immigrants from East Germany will spur economic growth in West Germany. The anticipated increase in consumer spending, employment, construction and investment is expected to keep West Germany's rate of real GDP expansion above three percent this year, following last year's four percent clip. In fact, West Germany's Economics Ministry has said that real GDP could be boosted by an extra one half of one percentage point in 1990, due solely to the effects of the 700,000 East German and Eastern European immigrants who entered the country in 1989.

What is more, the possible inflationary impact of the increase in domestic demand is expected to encourage the Bundesbank to keep a tight grip on monetary policy. This could mean another hike in West German interest rates before too long since the Bundesbank is already concerned about the effect that hefty wage settlements anticipated for this year could have on the inflation rate. Plainly, higher interest rates will also add to the Deutschemark's allure.

At the same time, West Germany's fiscal policy will be more expansionary this year, due to the DM24 billion worth of tax cuts that went into effect this month. This combination of a tight monetary policy and a loose fiscal policy will also keep the Deutschemark strong. It was the recipe for the dollar's ascent in the early 1980s.

While West Germany will be the major beneficiary of today's developments in Eastern Europe, given the special relationship that it has with these countries, other Western European nations will also gain from the East bloc's political and economic opening. For one thing, it will strengthen the ties among the 12-nation European Community (E.C.), helping to make it a more viable and competitive economic bloc. Both West German Chancellor Kohl and French President Mitterrand have emphasized that closer ties with Eastern Europe in general and progress toward German unification in particular can only take place within the framework of a united Western Europe. To emphasize this point, moves toward monetary union were accelerated last month when the E.C. leaders agreed at their summit meeting in Strasbourg to establish an intergovernmental congress in December 1990 that will revise the E.C.'s founding treaty in order to accommodate the final stages of monetary union. And, in order to reconfirm France's commitment to a unified Western Europe, President Mitterrand agreed to abolish French exchange controls this month, six months ahead of schedule (Financial Digest—July 31, 1989).

For another, some of the increase in consumer spending in West Germany that will result from the influx of East German immigrants should spill over into imports. This will help to reduce West Germany's huge trade surpluses with the rest of the E.C.

A New Spark To World Economic Growth

Buoyant economic growth in West Germany will be extremely important to the economic performance of the world economy this year because it comes at a time when a marked slowdown in economic expansion is anticipated for three of the G-7 nations—the United States, the United Kingdom, and Canada. However, relatively healthy growth in West Germany, along with continental Western Eu-

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rope and Japan, should keep the average growth rate for the industrial countries close to three percent this year, down only marginally from last year's 3.6 percent pace.

One of the driving forces behind the current global economic expansion has been the sharp increase in world trade. Political and economic reforms initiated in Eastern Europe point to further opportunities in this area. In particular, the anticipated restructuring of the East bloc economies will require substantial inflows of capital goods which will have to be supplied by countries outside the region, thereby giving a new spark to world trade.

Computer and Telecommunications Industries Should Benefit

The end of the cold war is also prompting the Western allies to relax controls on the transfer of high technology products to the Eastern European countries which are implementing democratic and free-market reforms. This could mean hundreds of billions of dollars in orders for the information technology sector in Western Europe, the United States and Japan. Probably more than any other industry, computer and telecommunications companies in the West will be poised to benefit from the reforms in the East as their products will be critical to the modernization of the Eastern Europe

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	**Latest Week**	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (12/27/89)	214,632	- 774	+ 18,600
New York City (1/3/90)	41,333	+ 116	- 591
Commercial Paper (1/3/90)	529,309	+ 6,829	+ 72,001

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loa

Weekly Reporting Large Commercial Banks	**Latest Week**	**Change Since Week Ago**	**Change Since Year Ag**
Nationwide (12/27/89)	318,341	- 1,243	+ 15,79
New York City (1/3/90)	57,974	- 952	+ 2,38

Total Loans and Leases Gross Adj

	Latest Week	**Change Since Week Ago**	**Change Since Year Ag**
Nationwide (12/27/89)	994,116	- 2,241	+ 75,423
New York City (1/3/90)	179,334	- 1,296	+ 7,174

Financial Markets

	Friday 1/12/90	**Change Since Week Ago**	**Change Since Year Ago**
U.S. Governments, Closing Yields:			
90-Day Bills†	7.74%	+ .03	- .72
180-Day Bills†	7.80	- .05	- .98
Longest Bills†	7.75	- .09	- 1.21
Recent issues:			
7⅝s 12/31/90	7.92	+ .04	
7⅝s 12/31/93	7.96	+ .06	
7⅞s 11/15/99	8.09	+ .11	
8⅛s 8/15/19	8.16	+ .10	
Municipals:			
Bond Buyer—20 Bond Index* (1/11/90)	7.03%	—0—	- .37
Blue List Total ($ Million)	$1,268	- $207	+ $282
30-Day Visible Supply ($ Million)	$1,007	- $ 64	- $814
Total	$2,275	- $271	- $532
Corporates:			
Moody's Aa Composite (1/11/90)	9.20	+ .02	- .66
30-Day Visible Supply ($ Million)	$2,825	+ $104	+ $388
Stocks:			
Dow-Jones Averages:			
Industrials	2,689.21	- 84.04	+463.14
Transportation	1,140.65	- 38.58	+143.89
Utilities	220.70	- 6.73	+ 32.16
65 Stocks	1,002.31	- 31.94	+155.97
N.Y.S.E. Composite Index	188.32	- 6.32	+ 28.74
N.Y.S.E. Avg. Daily Vol. for Week (000's)	162,598	- 9,885	+19,160

*34% Taxable equivalent 10.65%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	**Friday 1/12/90**	**Week Ago**
Overnight	8.06%	8.13
1 month	8.13	8.19
3 month	8.13	8.19
6 month	8.13	8.19
1 year	8.13	8.19

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/12/90)	**Currency Per U.S. $**	**Week Ago**
Belgium	35.36	35.62
Canada	1.1567	1.1612
France	5.7250	5.7820
Germany	1.6813	1.6935
Italy	1255.00	1271.50
Japan	145.33	144.40
Mexico	2661.00	2654.00
Netherlands	1.8975	1.9135
South Korea	682.90	681.00
Switzerland	1.4950	1.5465
Taiwan	26.05	26.09
U.K.*	1.6670	1.6310

*U.S. $ per U.K. pound

	Change Since Week Ago	**Change Since 2/27/**
MH TRADE-WEIGHTED DOLLAR (1/12/90) (Adjusted for Inflation)	-0.1%	-3.5

economies. Over the next ten years, Eastern Europe is expected to spend more than $130 billion on telecommunications alone.

One of the major problems that will confront Western investors, however, is that countries in Eastern Europe lack the hard currency necessary to pay for these products. Tourism could be a potential source. While foreign travel to Eastern Europe and the Soviet Union has been surging in recent months, most Eastern bloc countries don't have nearly enough hotels to meet the demand. In response, several major hotel chains are building new hotels in Warsaw, Budapest, Prague and Moscow, but, according to many travel agents, even these projects won't be enough.

While the United States may not stand to reap as many trade and investment benefits as some of the better-positioned countries in Western Europe, the ongoing reforms in Eastern Europe are not without some pluses. Perhaps the most significant advantage is that the end of the cold war will bring to this country the opportunity to use the huge savings from lower defense spending to reduce Washington's budget deficit. This, in turn, could mean lower interest rates, greater investment, and stronger growth in the United States in the 1990s––important benefits in their own right. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/10/90	**$ Change Since Week Ago**	**$ Change Since Year Ago**
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	233,510	- 2.302	- 12.209
Loans to Depository Inst.	.155	- .369	- 1.661
Float	1.458	+ .311	- .358
Total Reserve Bank Credit	274.258	- 2.185	+ 6.247
Treasury Deposits with Federal Reserve Banks	5.416	- .866	- .826
Currency in Circulation	259.135	- 1.433	+13,248
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	228.427	+ .326	- 2.216
Member Bank Reserves:	**1/10/90**		
Total Reserves Held	63.574	+ 1.830	- .471
Excess (Deficiency)	1.020	- .017	- .127
Net Free Reserves	.699	- .006	- .392
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**‡ % Change Since Year Ago**
M1 (1/1/90)	805.2	+ 8.1	+ 1.1
M2 (1/1/90)	3,221.4	+ 7.7	+ 4.9
M3 (1/1/90)	4,046.4	+ 3.4	+ 3.1
Domestic Nonfinancial Debt (3rd Q'89)	9,604.5	+ 7.5	+ 8.2

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 1/12/90	**3 Months**	**6 Months**	**1 Year**
‡ U.S. Treasury Bills	7.53%	7.42%	7.21%
* Federal Agencies	8.33	7.63	8.71
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.05	7.95	7.85
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.15	8.15	8.00

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.05%	Feb.	8.10%
15- 29 days	8.05	Mar.	8.00
30- 59 days	8.05	Apr.	7.94
60- 89 days	7.95	May	7.90
90-179 days	7.81	Jun.	7.84
180-239 days	7.50	Jul.	7.80
240-270 days	7.50		

‡ Industrial Paper–Prime			
30- 89 days	8.10%	†Federal Funds	
90-120 days	8.03	Effective Rate	8.13%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		**Previous Period**	**Year Ago Period**
Gross National Product (Current Dollars)*	3rd Q'89	$ 5,281	$ 5,202	$ 4,927
Gross National Product (1982 Dollars)*	3rd Q'89	$ 4,163	$ 4,133	$ 4,043
Percent Change, Annual Rate	3rd Q'89	3.0	2.5	3.2
Change in Consumer Prices*	Nov '89	4.8%	6.0%	3.6%
Change in MH Cost of Living Index*	Nov '89	4.8%	7.2%	2.4%
Change in Producer Prices*	Dec '89n	8.4%	- 1.2%	4.8%
Civilian Employment (Thousands of Persons) †	Dec '89n	117,888	117,836r	116,141 r
Unemployment as % of Civilian Labor Force †	Dec '89n	5.3%	5.3%	5.3%
Personal Income*	Nov '89	$ 4,541	$ 4,503	$ 4,169
Leading Indicators Composite Index (1967=100) †	Nov '89n	144.7	144.5r	144.1
Industrial Production Index (1977=100) †	Nov '89n	141.5	141.3	139.9
Net Change in Consumer Installment Credit †	Nov '89n	$ 4.24	$ 3.19r	$ 5.28
U.S. Merchandise Trade Balance †	Oct '89	- $ 10.20	- $ 8.51	-$ 9.23
Plant and Equipment Expenditures*	1st Q'90	$ 503.5(a)	$ 485.5(a)	$ 459.5
Private Housing Starts (Thousands of Units)*	Nov '89	1,361	1,428	1,567
New Construction Expenditures*	Nov '89n	$ 421.7	$ 415.6r	$ 415.4
Total Business Inventories †	Oct '89	$ 793.9	$ 790.6	$ 743.0
Total Business Sales †	Oct '89	$ 519.2	$ 522.8	$ 498.6

***Seasonally adjusted annual rate.** **† Seasonally adjusted.** n-Newly reported figure. **r-Revised.** **a-Anticipated.**

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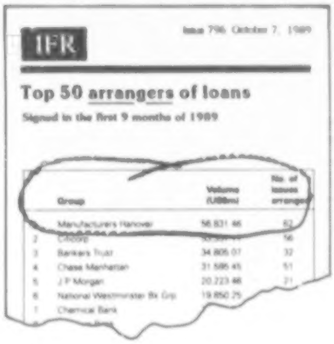

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Issue 796 October 7, 1989

Top 50 arrangers of loans

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	Group	Volume (US$m)	No. of issues arranged
1	Manufacturers Hanover	56,831.46	62
2	Citicorp	[illegible]	56
3	Bankers Trust	34,805.07	32
4	Chase Manhattan	31,595.45	51
5	J P Morgan	20,223.46	21
6	National Westminster Bk Grp	19,850.25	
7	Chemical Bank		

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MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 3

Monday, January 29, 1990

Analysis of Business Trends Plus Selected Financial Indicators

The Oil Deficit Widens

As if the problems associated with acres of vacant commercial real estate, financially-hobbled savings and loan institutions, ailing retailers and seemingly intractible Federal budget and foreign trade deficits weren't sufficient to give even the most well-conditioned policymaker heartburn, to this list must now be added a growing domestic oil deficit which promises ever greater reliance upon foreign petroleum. As with the others, this problem is not easily remedied. However, there is a silver lining in this cloud. With the economy becoming decidedly more energy efficient in recent years, and the avenues for further conservation gains far from exhausted, any dislocations caused by unanticipated oil price "shocks" in the coming decade should be more readily manageable than they were in the past.

To be sure, the trends underpinning the current concern over the oil outlook have been building (or deteriorating, depending upon one's point of view) for years. But the energy awareness of policymakers, consumers and media alike was recently galvanized by the one-two punch of a sharp upturn in home heating oil prices in the wake of December's record cold snap, and a widely-publicized report that domestic oil production skidded to a 26-year low in 1989. While the price runup sparked the more immediate concern, it is the prospect of ever-larger declines in domestic oil production which promises the longer-term woes.

Manufacturers Hanover Economics Department 17/270

It is, and has been, on the supply side of the oil ledger that the darkest news resides—and last year was no exception. According to the American Petroleum Institute, domestic oil production posted its largest single-year decline ever in 1989, skidding 6.8 percent compared with year-earlier production levels, to just under 7.6 million barrels per day. This marked the lowest daily extraction rate since 1963. Although one quarter of the decline was attributed to diminished Alaskan output, which experienced temporary disruptions due to long-scheduled pipeline maintenance and the offshore oil spill, it would be a mistake to consider 1989 a fluke. Last year marked the fourth year in a row that domestic oil production declined, bringing the cumulative drop in average daily output since 1985 to a shade more than 15 percent.

One Casualty And One Beneficiary

The decline in domestic production has produced two developments: It has prompted a surge in oil imports, which has masked a significant improvement in the nonoil merchandise trade balance, and it has touched off an upswing in the pace of new exploration. Plainly, the import surge has been more noticeable. Imports of crude oil and finished petroleum products jumped 8.2 percent in 1989 compared with year-earlier levels, to 7.9 million barrels daily. At this level, imports met nearly 47 percent of total demand; only in 1977 did imports satisfy a larger chunk of domestic demand, but not much more—48 percent. Not surprisingly, the trade balance has been a principal casualty. During the first 11 months of last year, the trade deficit totaled $101.7 billion, down only slightly from the $108.8 billion red ink posted during the same months of 1988. But, when the burgeoning oil import bill is stripped away, a far brighter trade picture emerges. Rather than confirming the popular misconception that trade balance progress has stalled, it reveals that the nonoil trade deficit, where price and quality count, was actually trimmed by a hefty

PASSENGER CAR EFFICIENCY

Year	Average Miles Traveled Per Auto	Average Number of Gallons Consumed per Auto	Average Miles Traveled Per Gallon
1970	10,272	760	13.5
1971	10,422	770	13.5
1972	10,521	785	13.4
1973	10,256	771	13.3
1974	9,606	716	13.4
1975	9,690	716	13.5
1976	9,785	723	13.5
1977	9,879	716	13.8
1978	9,835	701	14.0
1979	9,403	653	14.4
1980	9,141	591	15.5
1981	9,186	576	15.9
1982	9,428	566	16.7
1983	9,475	553	17.1
1984	9,558	536	17.8
1985	9,560	523	18.2
1986	9,608	526	18.3
1987	9,878	514	19.2
1988	10,119	507	20.0
1989(e)	10,517	509	20.7

(e) – estimate
Sources: Federal Highway Administration; MH

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20 percent during the January-November 1989 period, from $76.6 billion to $60.8 billion.

If the trade balance is a casualty, domestic drilling is a beneficiary. After bottoming in mid-1986, the closely-watched count of active drilling rigs has been zig-zagging higher, and presently stands about 200 units, or 24 percent above year-earlier levels. While this looks good, it must be remembered that the number of active drilling rigs is still less than one quarter the number in operation during the peak year of 1981. Although some analysts attribute this to unenticing oil prices, even at current levels, and others cite Federal government restrictions on drilling in such promising, yet environmentally-fragile areas as the Arctic National Wildlife Refuge, all this does is underscore the point that large pools of readily recoverable oil nationwide are few, and that most domestic fields are well past their prime.

Conservation To The Rescue

Enhanced domestic drilling and shifts to alternative fuels may buy time, but are unlikely, by themselves, to remedy the widening domestic oil deficit. The ultimate success, or failure in this effort will largely hinge on the effectiveness of conservation efforts—on the highways, at home and in the office. And, here, the news is

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/10/90)	248,352	- 212	+ 12,088
New York City (1/17/90)	56,049	+ 643	+ 13,067
Commercial Paper (1/17/90)	534,167	+ 399	+ 74,907

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loan

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/10/90)	321,039	- 1,183	+ 17,612
New York City (1/17/90)	83,580	- 329	+ 28,701

Total Loans and Leases Gross Adju

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/10/90)	1,000,903	- 4,248	+ 70,699
New York City (1/17/90)	246,269	+ 3,000	+ 73,312

Financial Markets

	Friday 1/26/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.92%	- .07	- .68
180-Day Bills†	7.83	- .16	- .99
Longest Bills†	8.06	+ .07	- .90
Recent Issues:			
8⅛s 1/31/92 (When Issued)	8.26	NA	
7⅝s 12/31/93	8.36	+ .15	
7⅞s 11/15/99	8.48	+ .22	
8⅛s 8/15/19	8.54	+ .24	
Municipals:			
Bond Buyer—20 Bond Index* (1/25/90)	7.19%	+ .05	- .08
Blue List Total ($ Million)	$1,414	+ $ 74	+$ 109
30-Day Visible Supply ($ Million)	$1,488	- $100	+$ 379
Total	$2,902	- $ 16	+$ 488
Corporates:			
Moody's Aa Composite (1/25/90)	9.31	+ .02	- .43
30-Day Visible Supply ($ Million)	$3,181	+ $356	+$1,768
Stocks:			
Dow-Jones Averages:			
Industrials	2,559.23	- 118.67	+236.37
Transportation	1,101.17	- 52.81	+ 49.45
Utilities	218.06	- 3.71	+ 28.10
65 Stocks	963.34	- 40.71	+ 81.86
N.Y.S.E. Composite Index	180.21	- 7.35	+ 15.43
N.Y.S.E. Avg. Daily Vol. for Week (000's)	181,498	+ 9,236	- 15,526

*34% Taxable equivalent 10.90%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/26/90	Week Ago
Overnight	8.06%	8.13
1 month	8.19	8.25
3 month	8.25	8.25
6 month	8.31	8.31
1 year	8.50	8.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/26/90)	Currency Per U.S. $	Week Ago
Belgium	35.31	35.86
Canada	1.1936	1.1797
France	5.7535	5.8350
Germany	1.6585	1.7105
Italy	1258.50	1277.00
Japan	143.80	145.90
Mexico	2675.00	2668.00
Netherlands	1.9020	1.9315
South Korea	685.10	683.50
Switzerland	1.4930	1.5175
Taiwan	26.17	26.09
U.K.*	1.6585	1.6375

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (1/26/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27
	+0.6%	-3.4

far better, especially in the transportation sector which alone accounts for two-thirds of total oil consumption. As shown in the table, the U.S. passenger car fleet is now averaging nearly 21 miles per gallon, a 33 percent improvement over the past decade, and a better than 50 percent improvement since the early 1970s. What is more, additional gains are in store. At 27 miles per gallon, newly-produced, domestic automobiles alone are some 30 percent more fuel efficient than the existing passenger car fleet. This is a sign of things to come as older vehicles are scrapped.

While automobiles may be the most noteworthy, heightened conservation extends far further, to household appliances, new homes and in office buildings and factories, where energy-efficient machinery and structures have become a precondition for global competitiveness. Although the United States is still reckoned to be less energy efficient than Western Europe or Japan, this only provides the opportunity for further improvement. With the amount of oil required to produce $1 of real GNP already down 40 percent since 1973 and still dropping, OPEC's ability to reclaim the driver's seat for long remains problematic, notwithstanding the recent bulge in our oil import appetite. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/24/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	227.083	- 1.852	- 13.421
Loans to Depository Inst.	.379	+ .158	- .795
Float	1.056	+ .146	+ .988
Total Reserve Bank Credit	268.022	- 1.291	+ 6.989
Treasury Deposits with Federal Reserve Banks	5.930	+ 1.822	- 3.430
Currency in Circulation	255.231	- 2.114	+13.756
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	228.642	+ .074	+ .229
Member Bank Reserves:	**1/24/90**		
Total Reserves Held	61.136	- 2.420	- .202
Excess (Deficiency)	.958	- .164	- .014
Net Free Reserves	.686	- .116	- .213
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**‡ % Change Since Year Ago**
M1 (1/15/90)	791.1	+ 6.0	+ 1.3
M2 (1/15/90)	3,218.3	+ 7.0	+ 5.0
M3 (1/15/90)	4,038.7	+ 4.0	+ 3.0
Domestic Nonfinancial Debt (3rd Q'89)	9,604.5	+ 7.5	+ 8.2

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/26/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.70%	7.65%	7.53%
* Federal Agencies	8.05	8.13	8.20
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.33	8.71	8.71
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.20	8.25	8.35

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.15%	Feb.	8.17%
15- 29 days	8.13	Mar.	8.10
30- 59 days	8.10	Apr.	8.05
60- 89 days	8.00	May	8.00
90-179 days	7.90	Jun.	7.97
180-239 days	7.50	Jul.	7.95
240-270 days	7.50		

‡ Industrial Paper–Prime			
30- 89 days	8.20%	†Federal Funds	
90-120 days	8.13	Effective Rate	8.19%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

Gross National Product (Current Dollars)*	4th	Q'89n	$ 5,337	$ 5,281	$ 5,113
Gross National Product (1982 Dollars)*	4th	Q'89n	$ 4,168	$ 4,163	$ 4,069
Percent Change, Annual Rate	4th	Q'89n	0.5	3.0	2.7
Change in Consumer Prices*	Dec	'89n	4.8%	4.8%	3.6%
Change in MH Cost of Living Index*	Dec	'89n	3.6%	4.8%	4.8%
Change in Producer Prices*	Dec	'89	8.4%	- 1.2%	4.8%
Civilian Employment (Thousands of Persons) †	Dec	'89	117,888	117,836	116,141
Unemployment as % of Civilian Labor Force †	Dec	'89	5.3%	5.3%	5.3%
Personal Income*	Nov	'89	$ 4,541	$ 4,503	$ 4,169
Leading Indicators Composite Index (1967=100) †	Nov	'89	144.7	144.5	144.1
Industrial Production Index (1977=100) †	Dec	'89n	142.8	142.3r	140.4
Net Change in Consumer Installment Credit †	Nov	'89	$ 4.24	$ 3.19	$ 5.28
U.S. Merchandise Trade Balance †	Nov	[illegible]	- $ 10.50	- $ 10.25r	-$ 10.55
Plant and Equipment Expenditures*	1st	[illegible]	$ 503.5(a)	$ 485.5(a)	$ 459.5
Private Housing Starts (Thousands of Units)*	Dec	[illegible]	1,235	1,342r	1,577
New Construction Expenditures*	Nov	[illegible]	$ 421.7	$ 415.6	$ 425.0
Total Business Inventories †	Nov	[illegible]	$ 796.8	$ 793.2r	$ 746.4r
Total Business Sales †	Nov	'89n	$ 523.6	$ 520.0r	$ 501.4r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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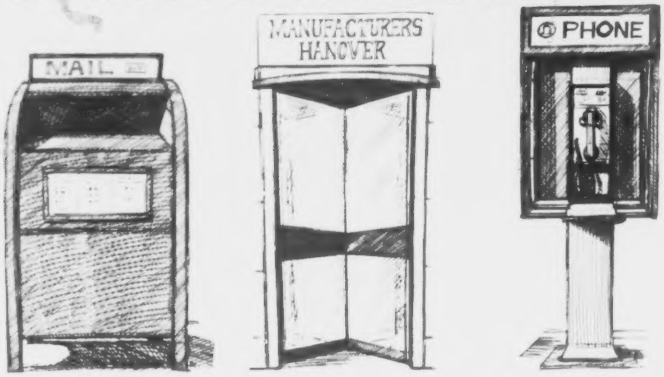

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MANUFACTURERS HANOVER

Financial Digest

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Monday, February 12, 1990

Analysis of Business Trends Plus Selected Financial Indicators

France Posts Significant Economic Gains

Manufacturers Hanover Economics Department 17/270

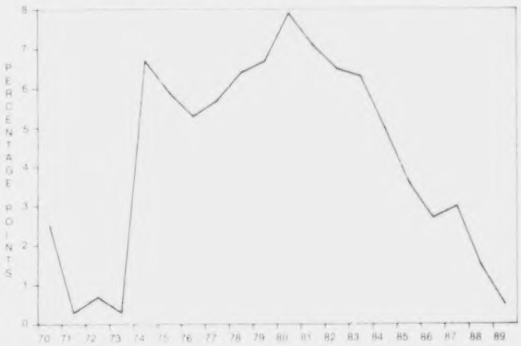
No other Western European country has engineered as sharp a turn in its economic direction over the course of the past decade as France. When the Socialist Party assumed office in 1981, its chief economic priorities were to stimulate economic growth and reduce unemployment. Reflation policies included public spending increases, job-creation programs and printing money. However, because efforts to reflate the French economy coincided with austerity programs in the rest of Europe, quite the opposite of the government's objectives actually occurred. Not only did the budget, trade and current account deficits soar to record levels, but the economy stagnated even further and the number of unemployed rose above the two million level for the first time ever as businesses and investors lost confidence in the government's economic management.

Indeed, investor confidence in the French economy eroded to such an extent that the Bank of France was forced to devalue the French franc on four separate occasions during the Socialist Party's first two years in office. By 1983, market pressures on the franc were so strong that the government even considered pulling the currency out of the exchange rate mechanism of the European Monetary System. Instead, it did a complete about-face and implemented the harshest belt-tightening program in France's recent history in an effort to restore the country's economic health.

Austerity Pays Off

It worked. Six years of monetary, fiscal and wage restraint are now bearing fruit. Not only was last year's 3½ percent rate of real economic expansion the highest since 1976, but a surge in industrial investment was the engine of growth. What's more, the country experienced its first annual drop in unemployment since 1973, and, while a still lofty 9.4 percent, the unemployment rate stood below ten percent for the first time since 1984. Continued strong investment as France prepares for the single European Community (EC) market by 1992, as well as an anticipated increase in consumer spending resulting from the significant number of new jobs that are being created, should keep this year's economic growth rate in the three percent neighborhood.

INFLATION RATE DIFFERENTIAL BETWEEN FRANCE AND GERMANY
(ANNUAL PERCENT CHANGE IN CONSUMER PRICE INDICES)



Source: International Monetary Fund

Efforts to control public spending have also produced results. The budget deficit has declined from almost three percent of GDP in 1985 to a projected 1.4 percent of GDP in 1990, marking the fifth straight year that the shortfall on the government's financial balance has fallen relative to the size of the French economy.

Even more impressive has been France's success on the inflation front. Dropping from 13 percent-plus in 1980 to 3.6 percent last year (year-over-year), the government has engineered one of the steepest inflation declines in the industrial world over the past decade. As a result, the inflation rate differential between France and Germany, the most closely watched economic barometer in France, has narrowed to a mere one-half percentage point, the smallest gap since 1973. The differential between the two countries was a whopping eight percentage points in 1980 (see chart). While this year's official inflation rate target of 2.5 percent may be a bit ambitious, there is an excellent chance that the differential with Germany will be entirely eliminated by the end of the year, given the government's commitment to monetary, fiscal and wage restraint and its "strong currency" exchange rate policy of maintaining the franc's value versus the Deutschemark.

The Strong Franc Is A Major Factor

Not surprisingly, Finance Minister Pierre Beregovoy is adamantly opposed to a franc devaluation, despite the sharp deterioration in France's trade performance last year. Marking

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the one dark spot on the country's excellent economic record, the trade deficit widened to 44 billion French francs, significantly larger than the 33 billion-franc shortfall recorded in 1988. Mr. Beregovoy, however, maintains that the widening trade deficit is not the result of an uncompetitive franc, but instead, reflects the surge in capital goods imports necessary to re-equip French industry. He strongly believes that France's investment boom will eventually increase industrial capacity so that French industry can both respond to domestic demand, and thereby decrease imports, and boost French exports. For this to occur, however, the government must keep a tight rein on inflation in order to maintain the competitiveness of French products. A devaluation, he argues, would only worsen inflation without benefiting the trade account.

In addition to upsetting his anti-inflation strategy, Mr. Beregovoy also believes that devaluing the franc would complicate his long-term goal of reducing French interest rates, which are extremely high in real terms. For example, Euro-franc interest rates are around four percentage points higher than Euro-mark rates, despite the meager half-point inflation rate differential between France and Germany. This is because investors are still not used to thinking of France

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/24/90)	217,080	- 454	+ 10,414
New York City (1/31/90)	41,086	- 61	- 769
Commercial Paper (1/31/90)	530,853	+ 829	+ 62,343

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loan

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/24/90)	319,218	- 513	+ 14,445
New York City (1/31/90)	58,809	+ 955	+ 3,420

Total Loans and Leases Gross Adju

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/24/90)	999,884	- 4,278	+ 69,073
New York City (1/31/90)	181,456	+ 3,301	+ 3,738

Financial Markets

	Friday 2/9/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.99%	- .07	- .84
180-Day Bills†	8.08	- .06	- .93
Longest Bills†	8.01	- .10	- 1.19
Recent Issues:			
8⅛s 1/31/92	8.23	- .10	
7⅝s 12/31/93	8.27	- .14	
8½s 12/15/00 (When Issued)	8.30	NA	
8½s 2/15/20 (When Issued)	8.35	NA	
Municipals:			
Bond Buyer—20 Bond Index* (2/8/90)	7.20%	- .04	- .18
Blue List Total ($ Million)	$1,114	+ $105	- $ 264
30-Day Visible Supply ($ Million)	$1,318	- $874	- $2,836
Total	$2,432	- $769	- $3,100
Corporates:			
Moody's Aa Composite (2/8/90)	9.45	+ .06	- .33
30-Day Visible Supply ($ Million)	$2,700	+ $175	- $1,002
Stocks:			
Dow-Jones Averages:			
Industrials	2,648.20	+ 45.50	+362.13
Transportation	1,088.19	+ 24.89	+ 28.20
Utilities	223.91	- .37	+ 37.68
65 Stocks	982.36	+ 15.40	+109.22
N.Y.S.E. Composite Index	184.39	+ 1.61	+ 20.38
N.Y.S.E. Avg. Daily Vol. for Week (000's)	155,146	- 14,354	- 35,942

*34% Taxable equivalent 10.91%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/9/90	Week Ago
Overnight	8.19%	8.13
1 month	8.19	8.19
3 month	8.25	8.25
6 month	8.31	8.31
1 year	8.25	8.56

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/9/90)	Currency Per U.S. $	Week Ago
Belgium	34.97	35.15
Canada	1.1939	1.1883
France	5.6855	5.7150
Germany	1.6725	1.6760
Italy	1245.00	1249.00
Japan	145.15	145.36
Mexico	2689.00	2682.00
Netherlands	1.8830	1.8970
South Korea	689.10	687.40
Switzerland	1.4937	1.4985
Taiwan	26.13	26.04
U.K.*	1.6905	1.6815

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (2/9/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/
	+0.7%	-2.1

as a low-inflation, strong-currency country and thus demand a high risk premium. By maintaining its anti-inflation efforts and refusing to devalue the franc, the government hopes to change this opinion. As investors, in turn, demand a smaller risk premium, French interest rates should eventually come down.

In the short term, however, France's exchange rate policy may mean higher domestic interest rates. Supporting Finance Minister Beregovoy's strong currency stance, Bank of France Governor Jacques de Larosiere has emphasized that French interest rate policy is entirely dependent upon movements of the franc and has promised to raise interest rates whenever necessary to maintain the currency's value versus the Deutschemark. Although often not warranted by domestic considerations, the Bank of France tightened monetary policy four times last year, lifting its key money market intervention rate to ten percent in December, the highest level since July 1985. Buoyant economic growth will probably continue to give the Bank of France leeway to match Bundesbank interest rate moves in order to convince investors that it will adhere to its strong franc policy. Investor confidence in the currency and the country, in turn, should help France meet the challenges of 1992.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/7/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	220.862	- 2.891	- 9.381
Loans to Depository Inst.	.880	+ .030	- .708
Float	1.047	+ .400	- .522
Total Reserve Bank Credit	262.958	- 2.270	+ 9.875
Treasury Deposits with Federal Reserve Banks	6.106	- 3.445	+ .027
Currency in Circulation	253.650	+ .418	+13.594
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	229.647	+ 1.574	+ 1.401
Member Bank Reserves:	**2/7/90**		
Total Reserves Held	59.363	- 1.676	- .779
Excess (Deficiency)	1.217	+ .326	- .326
Net Free Reserves	.385	- .233	- .680
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**‡ % Change Since Year Ago**
M1 (1/29/90)	796.9	+ 3.3	+ 1.0
M2 (1/29/90)	3,233.9	+ 6.1	+ 5.1
M3 (1/29/90)	4,049.4	+ 3.2	+ 3.1
Domestic Nonfinancial Debt (3rd Q'89)	9,604.5	+ 7.5	+ 8.2

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 2/9/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.80%	7.70%	7.54%
* Federal Agencies	8.05	8.12	8.20
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.33	8.33	8.53
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.28	8.35	8.40

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.15%	Mar.	8.17%
15- 29 days	8.13	Apr.	8.12
30- 59 days	8.10	May	8.07
60- 89 days	8.00	Jun.	8.02
90-179 days	7.90	Jul.	7.99
180-239 days	7.50	Aug.	7.93
240-270 days	7.50		

‡ Industrial Paper–Prime			
30- 89 days	8.25%	†Federal Funds	
90-120 days	8.18	Effective Rate	8.19%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'89	$ 5,337	$ 5,281	$ 5,017
Gross National Product (1982 Dollars)*	4th Q'89	$ 4,168	$ 4,163	$ 4,069
Percent Change, Annual Rate	4th Q'89	0.5	3.0	2.7
Change in Consumer Prices*	Dec '89	4.8%	4.8%	3.6%
Change in MH Cost of Living Index*	Dec '89	3.6%	4.8%	4.8%
Change in Producer Prices*	Jan '90n	21.6%	7.2% r	13.2% r
Civilian Employment (Thousands of Persons) †	Jan '90n	117,863	117,888	116,640
Unemployment as % of Civilian Labor Force †	Jan '90n	5.3%	5.3%	5.4%
Personal Income*	Dec '89n	$ 4,569	$ 4,548r	$ 4,206
Leading Indicators Composite Index (1967=100) †	Dec '89n	145.7	144.6r	145.1
Industrial Production Index (1977=100) †	Dec '89	142.8	142.3	140.4
Net Change in Consumer Installment Credit †	Dec '89n	$ 4.91	$ 4.60r	$ 5.09
U.S. Merchandise Trade Balance †	Nov '89	- $ 10.50	- $ 10.25	-$ 10.55
Plant and Equipment Expenditures*	1st Q'90	$ 503.5(a)	$ 485.5(a)	$ 459.5
Private Housing Starts (Thousands of Units)*	Dec '89	1,235	1,342	1,577
New Construction Expenditures*	Dec '89n	$ 414.6	$ 417.3	$ 425.0
Total Business Inventories †	Nov '89	$ 796.8	$ 793.2r	$ 746.4r
Total Business Sales †	Nov '89	$ 523.6	$ 520.0r	$ 501.4r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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Financial Digest

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MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 5

Monday, February 26, 1990

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Manufacturers
Hanover
Economics
Department
17/270

Monetary Policy Constraints

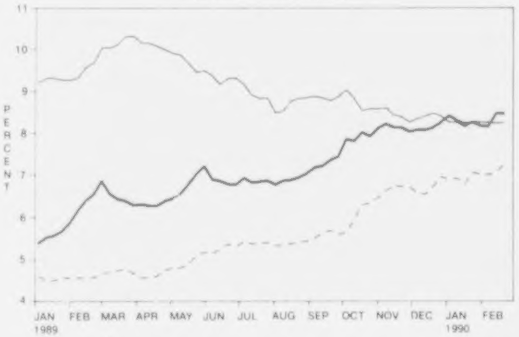
Sharp price reversals and escalating yields in the world's major bond markets are now underscoring not only the growing integration of the global financial markets, but also new constraints on the Federal Reserve's conduct of monetary policy. For although the overwhelming weight of evidence points to a marked slowdown in the pace of business in this country, and by some yardsticks in the rate of inflation, too, long-term interest rates are behaving as if the opposite were true. Meanwhile, the Fed is exhibiting a marked reluctance to further ease its grip on the monetary reins.

Although this hesitancy is usually attributed to Fed Chairman Alan Greenspan's view that recession risks have waned, there is something else as well. This is the increasing influence of foreign capital in the U.S. financial markets. With foreign interest rates trending higher, there is a possibility that a unilateral move by the Fed to lower interest rates in order to stimulate the U.S. economy may well backfire, triggering a large outflow of interest-sensitive capital, a decline in the foreign exchange value of the dollar and an acceleration of imported inflation. Although there is little proof that this would happen, no one wants to find out. Bond rates have already been dragged higher by rising overseas rates; short-term rates have begun to follow while the need for ease remains.

As shown in the chart, while the slide in Eurodollar deposit rates has come to an abrupt halt, German and Japanese interest rates continue to spiral higher. In Germany, the rate rise stems from inflation fears fanned by the staggering financial implications of the reunification of West and East Germany while in Japan, the same price fears have been ignited by the combination of an anemic yen and brisk economic growth. Regardless of the reasons, the fact is that most German interest rates now exceed comparable U.S. rates for the first time in nearly ten years, and the differential between U.S. and Japanese interest rates has narrowed to its smallest point in 3½ years.

With the United States relying increasingly on foreign capital to finance a slice of everything from commercial construction to auto assembly plants to a third of new Treasury debt offerings, the recent turn of global interest rates carries with it high stakes. Internationally competitive yields are no longer a luxury for this country, but a necessity for smoothly functioning credit markets. And, herein lies the rub. As evidence mounts that the backup in bond yields is feeding back into the money markets, raising speculation that the banks' prime lending rate is coming under pressure, today's inertia amounts to a tacit admission of a partial loss of monetary policy sovereignty, since there is little on the domestic side of the ledger to preclude an easing by the Fed.

3-MONTH DEPOSIT RATES: EURODOLLAR (THIN) VS. EURODM (THICK) VS. EUROYEN (DASH) (WEEKLY AVERAGES)



Source: MH

Recession Risks Receding?

For one thing, the economy is still moving sideways at best, with the industrial sector downright weak. Although cutbacks in the automobile industry are at the center of industry's lethargy, the toll extends well beyond Detroit. Manufacturing hasn't added one new job in nearly a year, industrial output is no higher today than last spring and factory operating rates are still headed south. What is more, near-term investment spending will be pinched by declines in "real" cash flow. Add to this the rising proportion of exporters reporting a slowdown of new orders, the ongoing drop in the actual number of new homes being sold, the erosion of consumer confidence and the rise in unemployment insurance claims and it becomes somewhat more understandable why even Fed Chairman Greenspan is hedging his bets. In last week's testimony before the Congress, Mr. Greenspan in effect stated that the modest firming of economic activity that the Fed thinks

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is underway may well be just a clearing in the recessionary woods.

For another, the inflation outlook doesn't place any undue obstacles in the path of additional ease. Although the Fed finds itself uncomfortable with a 4½ percent inflation rate, the fact is that "core" inflation at the producer level, is still slowing and, at the consumer level it isn't all that much different from recent years. Producer prices, excluding food and energy, are now advancing at a less than four percent year-over-year clip, their slowest rate of rise since mid-1988. Consumer prices, excluding food and energy, are up 4.4 percent over the past 12 months, not far from the preceding five-year annual average of 4.2 percent. This suggests two things. First, the peak of producer price inflation may have passed and, second, "core" rates of consumer price inflation have not changed much in recent years, and probably won't in the near term.

Commercial Banks On The Sidelines

But even if the Fed could sidestep today's international constraints and did ease, it might not do much good. Lenders are becoming increasingly reluctant to lend money, and for

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	**Latest Week**	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (2/7/90)	217,336	+ 1,308	+ 9,330
New York City (2/14/90)	41,422	+ 208	- 483
Commercial Paper (2/14/90)	534,680	+ 688	+ 53,263

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loa

Weekly Reporting Large Commercial Banks	**Latest Week**	**Change Since Week Ago**	**Change Since Year Ag**
Nationwide (2/7/90)	321,160	+ 1,206	+ 11,49
New York City (2/14/90)	59,313	+ 320	+ 1,40

Total Loans and Leases Gross Adj

	Latest Week	**Change Since Week Ago**	**Change Since Year Ag**
Nationwide (2/7/90)	1,000,738	- 2,685	+ 60,99
New York City (2/14/90)	184,785	+ 4,169	+ 5,25

Financial Markets

	Friday 2/23/90	**Change Since Week Ago**	**Change Since Year Ago**
U.S. Governments, Closing Yields:			
90-Day Bills†	7.92%	-0-	- 1.04
180-Day Bills†	8.07	+ .01	- 1.15
Longest Bills†	8.09	+ .01	- 1.40
Recent Issues:			
8½s 2/28/92 (When Issued)	8.41	NA	
7⅝s 12/31/93	8.49	+ .12	
8½s 12/15/00	8.53	+ .12	
8½s 2/15/20	8.56	+ .10	
Municipals:			
Bond Buyer—20 Bond Index* (2/22/90)	7.27%	+ .11	- .28
Blue List Total ($ Million)	$1,380	+ $172	+ $102
30-Day Visible Supply ($ Million)	$1,788	+ $518	- $ 58
Total	$3,168	+ $690	+ $ 44
Corporates:			
Moody's Aa Composite (2/22/90)	9.48	+ .05	- .44
30-Day Visible Supply ($ Million)	$1,350	- $200	- $533
Stocks:			
Dow-Jones Averages:			
Industrials	2,564.19	- 71.40	+318.65
Transportation	1,081.26	+ 1.96	+ 9.30
Utilities	216.86	- 4.41	+ 35.02
65 Stocks	958.35	- 17.23	+ 94.02
N.Y.S.E. Composite Index	179.35	- 4.40	+ 15.26
N.Y.S.E. Avg. Daily Vol. for Week (000's)	160,378	+ 11,532	+ 5,993

*34% Taxable equivalent 11.10%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	**Friday 2/9/90**	**Week Ago**
Overnight	8.19%	8.13
1 month	8.19	8.19
3 month	8.25	8.25
6 month	8.31	8.25
1 year	8.56	8.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/9/90)	**Currency Per U.S. $**	**Week Ago**
Belgium	34.95	35.39
Canada	1.2017	1.2009
France	5.6850	5.7550
Germany	1.6760	1.6780
Italy	1239.00	1255.55
Japan	147.00	144.65
Mexico	2703.00	2696.00
Netherlands	1.8905	1.9085
South Korea	691.60	690.10
Switzerland	1.4737	1.4925
Taiwan	26.15	26.12
U.K.*	1.7085	1.6890

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (2/23/90) (Adjusted for Inflation)	**Change Since Week Ago**	**Change Since 2/27.**
	+0.4%	-2.6

good reason. By exhorting commercial banks to curtail lending in order to shrink their balance sheets and shore up capital ratios, the regulators and stock analysts have supplanted usury ceilings as inhibitors of bank credit growth. This is raising again the specter of the kind of credit crunch that occurred in the 1960s and 1970s, when there were limits on how much banks could pay for deposits and charge for loans. Real estate developers currently find themselves at the cutting edge of this liquidity squeeze, but it also extends to borrowers contemplating highly-leveraged transactions as well as to small- and medium-sized borrowers.

Foreign factors and lender caution are working in tandem to box in Fed flexibility. While not much can be done about the latter, there is one way to remove the international shackles. Washington could trim its budget deficit and reduce our dependence on foreign capital. But, with interest rates again rising and large chunks of the economy already weak, a hefty dose of fiscal restraint now might be enough to tip the economy into the very recession that everyone wants to avoid. Under these circumstances, living with foreign capital seemingly entails almost the same recession risks as making a determined effort to live without it. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/21/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	222.665	+ 1.245	- 9.257
Loans to Depository Inst.	1.888	+ .816	+ .155
Float	1.567	+ .950	+ .352
Total Reserve Bank Credit	264.137	+ .729	+10.741
Treasury Deposits with Federal Reserve Banks	4.783	- 1.663	- .292
Currency in Circulation	255.230	+ .566	+14.445
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	225.040	- 2.546	- 5.730
Member Bank Reserves:	2/21/90		
Total Reserves Held	59.061	- .253	+ .060
Excess (Deficiency)	.992	- .218	- .024
Net Borrowed Reserves	.355	+ .733	+ 1.005
Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (2/12/90)	798.6	+ 4.5	+ 1.3
M2 (2/12/90)	3,252.2	+ 7.8	+ 5.8
M3 (2/12/90)	4,068.9	+ 4.3	+ 3.6
Domestic Nonfinancial Debt (3rd Q'89)	9,604.5	+ 7.5	+ 8.2

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 2/23/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.70%	7.71%	7.56%
* Federal Agencies	7.80	8.00	8.10
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.33	8.48	8.48
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.30	8.30	8.35

‡ Finance Company Paper–Prime	
5- 14 days	8.10%
15- 29 days	8.10
30- 59 days	8.10
60- 89 days	8.05
90-179 days	7.50
180-239 days	7.25
240-270 days	7.25

‡* Bankers' Acceptances	
Mar.	8.15%
Apr.	8.11
May	8.07
Jun.	8.03
Jul.	8.00
Aug.	7.96

‡ Industrial Paper–Prime	
30- 89 days	8.20%
90-120 days	8.14

†Federal Funds	
Effective Rate	8.25%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'89	$ 5,337	$ 5,281	$ 5,017
Gross National Product (1982 Dollars)*	4th Q'89	$ 4,168	$ 4,163	$ 4,069
Percent Change, Annual Rate	4th Q'89	0.5	3.0	2.7
Change in Consumer Prices*	Jan '90n	13.2%	4.8%	7.2%
Change in MH Cost of Living Index*	Jan '90n	13.2%	3.6%	8.4%
Change in Producer Prices*	Jan '90	21.6%	7.2%	13.2%
Civilian Employment (Thousands of Persons) †	Jan '90	117,863	117,888	116,640
Unemployment as % of Civilian Labor Force †	Jan '90	5.3%	5.3%	5.4%
Personal Income*	Dec '89	$ 4,569	$ 4,548	$ 4,206
Leading Indicators Composite Index (1967=100) †	Dec '89	145.7	144.6	145.1
Industrial Production Index (1977=100) †	Jan '90n	140.9	142.5r	140.8
Net Change in Consumer Installment Credit †	Dec '89	$ 4.91	$ 4.60	$ 5.09
U.S. Merchandise Trade Balance †	Dec '89n	- $ 7.17	- $ 10.29r	-$ 10.80
Plant and Equipment Expenditures*	1st Q'90	$ 503.5(a)	$ 485.5(a)	$ 459.5
Private Housing Starts (Thousands of Units)*	Jan '90n	1,625	1,254r	1,659r
New Construction Expenditures*	Dec '89	$ 414.6	$ 417.3	$ 425.0
Total Business Inventories †	Dec '89n	$ 795.2	$ 797.0r	$ 753.3r
Total Business Sales †	Dec '89n	$ 522.5	$ 522.3r	$ 507.1r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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Financial
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MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 6 Monday, March 12, 1990

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Manufacturers
Hanover
Economics
Department
17/270

Interest Rates Rise Globally

Political developments in Eastern Europe are dominating the global financial markets this year. However, the initial euphoria about the positive effects that they would have on economic growth in the industrial countries, especially West Germany, has been largely replaced by concerns over the hefty burden that they could place on West Germany's economic and financial resources. Fears that monetary union between East and West Germany and an eventual rescue of the East German economy will result in greater government spending, higher borrowing needs and a loftier inflation rate in West Germany have pushed up German interest rates substantially in recent weeks. In particular, worries that the unification of the Deutschemark and East German mark may be implemented at an inflationary one-for-one exchange rate have caused the West German 10-year bond yield to soar to nine percent, its highest level since the early 1980s.

While one could expect that rising interest rates in West Germany would produce higher rates throughout Western Europe, given the strong link between the Deutschemark and the European currencies via the European Monetary System (EMS), the integration of financial markets worldwide is one of the reasons why interest rates have gone up in Japan and the United States as well.

Although Japan's strong economic growth, surging money supply, tight labor market and weakening currency may justify higher Japanese interest rates, this is certainly not the case in the United States. Indeed, with the dollar appreciating, inflation more or less under control and signs of a marked slowdown in the pace of business activity increasing, a case could even be made for lower interest rates in this country (Financial Digest—February 26, 1990).

Germany Sets The Direction

However, West Germany is setting the direction, if not the pace, of interest rate movements around the world. Thus it has become increasingly important for monetary authorities, economists, business leaders and investors in all countries to be aware not only of the rapid economic and political changes that are taking place there today, but also of their implications for Germany's inflation outlook and the Bundesbank's monetary policy.

Before the sharp deterioration of the East German economy and the flood of East German immigrants into West Germany accelerated the move toward German economic and monetary union, the Bundesbank's chief inflation concerns were focused on rising wage demands, especially from West Germany's largest union, IG Metall. However, any hefty wage settlements, as well as a looser fiscal policy resulting from planned tax cuts and the influx of East German immigrants, were expected to prompt the central bank to maintain a tight rein on monetary policy, thereby keeping the inflation rate in the three percent neighborhood this year. Indeed, reflecting the Bundesbank's tight grip, consumer prices rose by only 2.6 percent in February (year-over-year), while wholesale prices increased by a mere 1.4 percent in January. Import prices actually declined in January due to the strength of the Deutschemark.

With inflation well under control, the major forces driving up West German interest rates would appear to be market concerns that the rapid deterioration of the East German economy and the flood of East German immigrants into West Germany may cause political factors to override economic considerations. This means that the West German government might throw caution to the wind in its dealings with East Germany, especially with regard to a monetary union. Investors are particularly concerned that an overgenerous exchange rate, while protecting East German savings, would fuel West German inflation. They are also worried that huge increases in government spending to accommodate East German immigrants and rebuild the East German economy will add to inflation pressures.

Yet, it just may be political factors that will cause West German Chancellor Helmut Kohl to err on the side of caution. This is because he himself faces an election this December, and regardless of the stage of German unification by then, the bulk, if not all of the voters who will decide its outcome will be the inflation-conscious West Germans. It is not likely that

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Mr. Kohl has forgotten that a major factor that cost his predecessor, Helmut Schmidt, his job back in 1982, was a surge in Germany's inflation rate as Mr. Schmidt succumbed to international pressures to reflate the German economy in order to help pull Europe out of recession.

What is more, it appears that the warm welcome given to East German immigrants last November is being quickly replaced by feelings of resentment as the West Germans have begun to realize that liberal handouts to their brothers spell fewer social benefits and higher taxes for them. Thus, despite remarks by Chancellor Kohl that he sympathizes with an exchange rate that would preserve the value of East German savings, it is West German concerns that he must ultimately address, especially in an election year.

Money Will Stay Tight

Finally, the Bundesbank's long-standing commitment to price stability will probably prevent a sharp rise in West Germany's inflation rate. While the ultimate decisions regarding monetary and economic union belong to Bonn, it is doubtful that Chancellor Kohl

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (2/21/90)	216,761	- 682	+ 7,497
New York City (2/28/90)	41,035	- 322	- 1,150
Commercial Paper (2/28/90)	540,197	+ 2,174	+ 52,790

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loan

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (2/21/90)	320,796	+ 433	+ 11,158
New York City (2/28/90)	59,653	+ 522	+ 2,081

Total Loans and Leases Gross Adj

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (2/21/90)	1,007,189	+ 618	+ 65,056
New York City (2/28/90)	181,919	- 2,090	- 1,164

Financial Markets

	Friday 3/9/90	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.25%	+ .25	- .79
180-Day Bills†	8.31	+ .16	- .98
Longest Bills†	8.44	+ .26	- 1.11
Recent Issues:			
8½s 2/28/92	8.71	+ .25	
7⅝s 12/31/93	8.75	+ .22	
8½s 2/15/00	8.65	+ .22	
8½s 2/15/20	8.63	+ .08	
Municipals:			
Bond Buyer—20 Bond Index* (3/8/90)	7.25%	-0-	- .27
Blue List Total ($ Million)	$1,445	- $ 148	+ $179
30-Day Visible Supply ($ Million)	$2,432	+ $1,082	+ $258
Total	$3,877	+ $ 934	+ $437
Corporates:			
Moody's Aa Composite (3/8/90)	9.47	- .02	- .44
30-Day Visible Supply ($ Million)	$1,450	- $ 600	- $557
Stocks:			
Dow-Jones Averages:			
Industrials	2,683.33	+ 22.97	+401.19
Transportation	1,139.05	- 6.93	+ 74.85
Utilities	219.50	- .13	+ 37.13
65 Stocks	999.40	+ 2.79	+128.63
N.Y.S.E. Composite Index	186.18	+ 1.21	+ 21.33
N.Y.S.E. Avg. Daily Vol. for Week (000's)	154,266	- 8,162	- 3,899

*34% Taxable equivalent 10.98%

† Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/9/90	Week Ago
Overnight	8.19%	8.13
1 month	8.25	8.25
3 month	8.50	8.31
6 month	8.50	8.38
1 year	8.81	8.63

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/9/90)	Currency Per U.S. $	Week Ago
Belgium	35.35	35.74
Canada	1.1781	1.1935
France	5.7560	5.7975
Germany	1.7010	1.7210
Italy	1256.50	1268.70
Japan	151.30	149.65
Mexico	2717.00	2710.00
Netherlands	1.9155	1.9340
South Korea	698.10	693.00
Switzerland	1.5070	1.5092
Taiwan	26.40	26.15
U.K.*	1.6205	1.6555

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (3/9/90) (Adjusted for Inflation)	Change Since	
	Week Ago	2/27/
	+0.2%	-1.2

would implement any agreements without the approval of the Bundesbank, given the central bank's high esteem in West Germany—not to mention elsewhere.

So while the effects of currency union and additional fiscal spending may nudge this year's inflation rate a little higher than initially expected, an explosion in prices is highly unlikely. Indeed, hefty wage increases, the Bundesbank's major inflation concern before talk of monetary union, will probably be held in check by the flood of immigrants from East Germany.

While a jump in West Germany's inflation rate is highly unlikely, uncertainty over the terms and effects of monetary union will continue to place upward pressure on German interest rates in the coming months. At the same time, the need for the Bundesbank to maintain its credibility will keep German monetary policy tight. The central bank will probably lift its discount rate another 50 basis points from its current six percent, although it will likely wait until the terms of monetary union are set sometime after the East German elections on March 18 in order to assess their effects on West German inflation.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/7/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	227.669	+ 3.333	- 7.789
Loans to Depository Inst.	2.059	+ .185	- .034
Float	.471	- .433	- .999
Total Reserve Bank Credit	268.681	+ 3.222	+10,685
Treasury Deposits with Federal Reserve Banks	6.193	+ .060	+ 1.018
Currency in Circulation	255.617	_ .651	+14.391
Gov'ts held for Foreign Acct by F.R. Banks (End-of-Week)	223.812	- .539	- 9.337
Member Bank Reserves:	3/7/90		
Total Reserves Held	59.086	- .056	+ .119
Excess (Deficiency)	.816	- .175	- .141
Net Free Reserves	.690	+ 1.046	+ .283
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**‡ % Change Since Year Ago**
M1 (2/26/90)	804.9	+ 5.9	+ 1.7
M2 (2/26/90)	3,264.8	+ 7.3	+ 6.1
M3 (2/26/90)	4,072.9	+ 4.0	+ 3.6
Domestic Nonfinancial Debt (3rd Q'89)	9,604.5	+ 7.5	+ 8.2

† Seasonally adjusted.

* Seasonally adjusted annual rate
‡ Four-week moving average

New York Money Market

Offering Rates 3/9/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.96%	7.88%	7.83%
* Federal Agencies	8.13	8.30	8.35
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.33	8.53	8.71
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.35	8.45	8.60

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.23%	Apr	8.23%
15- 29 days	8.23	May	8.20
30- 59 days	8.20	Jun.	8.18
60- 89 days	8.15	Jul.	8.15
90-179 days	7.88	Aug	8.14
180-239 days	7.50	Sep.	8.13
240-270 days	7.50		

‡ Industrial Paper–Prime			
30- 89 days	8.25%	†Federal Funds Effective Rate	8.31%
90-120 days	8.23		

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'89	$ 5,338 r	$ 5,281	$ 5,017
Gross National Product (1982 Dollars)*	4th Q'89	$ 4,172 r	$ 4,163	$ 4,069
Percent Change, Annual Rate	4th Q'89	0.9 r	3.0	2.7
Change in Consumer Prices*	Jan '90	13.2%	4.8%	7.2%
Change in MH Cost of Living Index*	Jan '90	13.2%	3.6%	8.4%
Change in Producer Prices*	Jan '90	21.6%	7.2%	13.2%
Civilian Employment (Thousands of Persons) †	Feb '90n	118,035	117,863	116,757
Unemployment as % of Civilian Labor Force †	Feb '90n	5.3%	5.3%	5.2%
Personal Income*	Jan '90n	$ 4,603	$ 4,567r	$ 4,273
Leading Indicators Composite Index (1967=100) †	Jan '90n	145.3	145.3r	146.0
Industrial Production Index (1977=100) †	Jan '90	140.9	142.5	140.8
Net Change in Consumer Installment Credit †	Jan '90n	$ 3.54	$ 4.35r	$ 22.52
U.S. Merchandise Trade Balance †	Dec '89	- $ 7.17	- $ 10.29	-$ 10.80
Plant and Equipment Expenditures*	1st Q'90	$ 503.5(a)	$ 485.5(a)	$ 459.5
Private Housing Starts (Thousands of Units)*	Jan '90	1,625	1,254	1,659
New Construction Expenditures*	Jan '90n	$ 424.0	$ 416.6r	$ 423.0
Total Business Inventories †	Dec '89	$ 795.2	$ 797.0	$ 753.3
Total Business Sales †	Dec '89	$ 522.5	$ 522.3	$ 507.1

*Seasonally adjusted annual rate † Seasonally adjusted n-Newly reported figure r-Revised a-Anticipated.

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Financial Digest

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MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 7

Monday, March 26, 1990

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Manufacturers
Hanover
Economics
Department
17/270

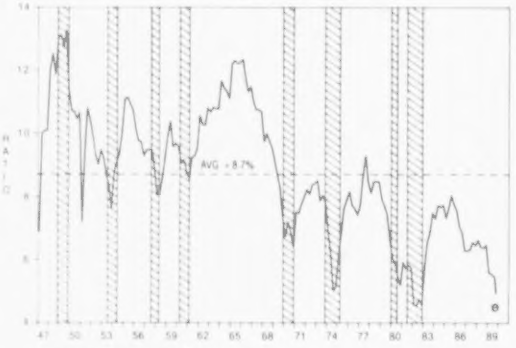
Corporate Profits In A Tailspin

While the mercurial consensus of economic opinion seems to have abandoned the idea that recession is imminent, and some of the more predictable pundits are again warning of the dangers of a quickening pace of business and galloping inflation, it would be hard to tell that the economy was reawakening, judging from the depressed condition of corporate profits. With corporate America's ability to raise selling prices severely limited by strong consumer resistance to price increases, unit labor costs trending higher and interest expense ballooning, a good chunk of industry, ranging from high-technology firms, to retailers, to defense contractors, finds itself in the throes of a significant earnings squeeze. Although vigorous efforts are underway to rein in costs, at this juncture the results have been mixed. Thus, the profits pinch remains one of the greatest threats to today's economic expansion, jeopardizing employment, inventory and capital spending levels.

Although the Commerce Department has yet to officially report fourth quarter 1989 profits, with business activity faltering and costs rising, it appears that the news was hardly good. According to estimates by this Bank, before-tax book profits ran at a $265 billion annual rate in the fourth quarter. This is down $10 billion from quarter-earlier levels, and off by nearly $55 billion, or 17 percent, compared with same-quarter 1988 levels. This marked the third straight quarter in which before-tax profits fell short of year-earlier levels, something which hasn't happened since the manufacturing slump of 1986. After-tax profits fared little better, tumbling by more than $6 billion in the fourth quarter compared with third-quarter levels, to an annual rate of $146 billion—the weakest earnings performance in 2½ years.

The tailspin in book profits reveals only part of the deterioration of corporate profitability. Profits from current production, or operating profits, which net out of reported earnings the impact of inflation-fueled inventory profits and adjust for swings in depreciation allowances, continue to tumble at an even faster clip than book earnings. Before- and after-tax operating earnings have dropped for four quarters in a row. The crumbling of after-tax operating earnings has been especially pronounced. They now stand nearly 20 percent below their fourth quarter 1988 peak, and are back to where they were in late 1983. As shown in the chart, operating profit margins have plunged, and are at levels usually experienced only during recessions.

RATIO OF CORPORATE AFTER-TAX OPERATING PROFITS TO CORPORATE PRODUCT



Source: Commerce Department

Cost-Cutting To The Fore

Unfortunately, reversing the earnings slide will not be easy. With the potential for meaningful revenue gains through either increased sales or price hikes limited by today's subdued economic growth and a relatively becalmed inflation environment, cost-cutting is believed to be the most effective avenue for breathing new life into the bottom line. But, despite modest inflation, cost pressures continue to build, reflecting the upward creep of wages and mandated benefit costs, and the highly-leveraged nature of corporate America.

Most cost-cutting measures have so far zeroed in on labor costs. Although average hourly earnings growth has been lethargic, advancing by less than four percent during the 12-months ending in February, even this modest rise has been quicker than either the pace at which most firms have been able to raise selling prices or, more important, productivity growth. As a result, unit labor costs are under steady upward pressure. They are now rising at a better than five percent clip—the fastest rate of rise since the 1981-82 recession.

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But direct wage costs are only part of the labor cost package. Equally important has been the surge in benefit costs. These range from mandated hikes in the employer tax rate for Social Security contributions, to exploding medical insurance costs, to employer reimbursement of educational expenses. Wage and benefit costs together are advancing at a much brisker clip than wages alone, widening the gap between productivity and compensation even further. Not surprisingly, white- and blue-collar layoffs alike have mounted, widespread in manufacturing at first, but now extending to labor-intensive service industries such as commercial banking and brokerage firms.

With large chunks of corporate America suffering under the weight of hefty debt burdens, profits restoration must go beyond trimming labor costs. At some point, it must include shoring up the balance sheet. This is because since the end of the 1970s, total credit market debt owed by nonfinancial corporate business has swollen from just $775 billion to better than $2 trillion currently, an average annual rate of growth in excess of 10½ percent. Interest payments grew apace, and were running at a record $154 billion annual rate in the fourth quarter of last year. This was up 15 percent compared with the same quarter of 1988. With profits and cash

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/7/90)	219,380	+ 4,050	+ 5,265
New York City (3/14/90)	40,821	- 3,484	- 2,502
Commercial Paper (3/14/90)	542,071	+ 1,116	+ 54,758

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/7/90)	324,374	+ 1,064	+ 13,471
New York City (3/14/90)	59,541	- 264	+ 1,972

Total Loans and Leases Gross Adjus

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/7/90)	1,008,044	+ 1,210	+ 66,195
New York City (3/14/90)	181,129	- 1,579	+ 1,402

Financial Markets

	Friday 3/23/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.13%	- .02	- 1.24
180-Day Bills†	8.24	- .01	- 1.32
Longest Bills†	8.27	- .05	- 1.41
Recent Issues:			
8½s 2/28/92	8.55	- .05	
7⅞s 12/31/93	8.60	- .03	
8½s 2/15/00	8.51	- .05	
8½s 2/15/20	8.47	- .06	
Municipals:			
Bond Buyer—20 Bond Index* (3/22/90)	7.31%	- .01	- .41
Blue List Total ($ Million)	$1,612	+ $ 33	+$ 283
30-Day Visible Supply ($ Million)	$2,500	+ $1,197	+$1,214
Total	$4,112	+ $1,230	+$1,497
Corporates:			
Moody's Aa Composite (3/22/90)	9.50	- .07	- .52
30-Day Visible Supply ($ Million)	$2,394	+ $1,110	- $ 265
Stocks:			
Dow-Jones Averages:			
Industrials	2,704.28	- 36.92	+461.24
Transportation	1,170.87	+ 14.04	+162.78
Utilities	213.72	- 3.77	+ 31.58
65 Stocks	1,007.65	- 6.65	+159.00
N.Y.S.E. Composite Index	185.45	- 2.47	+ 22.81
N.Y.S.E. Avg. Daily Vol. for Week (000's)	145,833	- 11,715	- 2,504

*34% Taxable equivalent 11.08%

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/23/90	Week Ago
Overnight	8.13%	8.19%
1 month	8.31	8.31
3 month	8.38	8.44
6 month	8.50	8.56
1 year	8.75	8.88

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/23/90)	Currency Per U.S. $	Week Ago
Belgium	35.41	35.30
Canada	1.1760	1.1830
France	5.7450	5.7415
Germany	1.7060	1.6950
Italy	1256.00	1251.00
Japan	154.45	152.20
Mexico	2731.00	2724.00
Netherlands	1.9210	1.9135
South Korea	698.20	697.20
Switzerland	1.5080	1.5100
Taiwan	26.40	26.50
U.K.*	1.6045	1.6242

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (3/9/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.4%	-0.4%

flow squeezed, rising interest payments are now absorbing a huge 44 percent of net cash flow, up from 33 percent two years ago.

Dividends Could Be A Casualty

Jobs and capital spending are two of the more obvious casualties of dwindling profitability. The next may be the shareholder. For notwithstanding the plunge in earnings, shareholders have so far escaped generally unscathed. Dividend payments have doubled in the past seven years, and continue to run at record levels. They advanced another nine percent during the four quarters ending last December, to an annual rate of $126 billion. But, with 86 percent of after-tax earnings currently being distributed to shareholders, prospects for additional dividend gains are slim to none.

In fact, unless profits rebound quickly, quite the opposite will occur. Many firms have already bit the bullet, as the number of dividend cuts and omissions in 1989 was 27 percent higher than in 1988. While only a short-term palliative, widespread dividend cuts might become necessary if even more extensive reductions in capital spending and employment are to be avoided.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/21/90	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	225.977	+ .254	- 9.468
Loans to Depository Inst.	2.226	+ .095	+ .807
Float	.586	- .177	- .140
Total Reserve Bank Credit	268.696	+ .249	+11.581
Treasury Deposits with Federal Reserve Banks	5.001	+ .073	+ .781
Currency in Circulation	257.120	+ .186	+14.865
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	220.507	- 1.301	- 12.641
	3/21/90		
Member Bank Reserves:			
Total Reserves Held	59.439	+ .374	+ .725
Excess (Deficiency)	.832	+ .036	+ .097
Net Free Reserves	.649	- .021	+ .336
		‡ % Change Since	
Monetary Aggregates †		**3 Months Ago***	**Year Ago**
M1 (3/12/90)	802.2	+ 6.5	+ 1.9
M2 (3/12/90)	3,269.3	+ 7.0	+ 6.1
M3 (3/12/90)	4,069.4	+ 3.5	+ 3.3
Domestic Nonfinancial Debt (4th Q'89)	9,790.0	+ 2.1	+ 8.1

† Seasonally adjusted

* Seasonally adjusted annual rate
‡ Four-week moving average

New York Money Market

Offering Rates 3/23/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.90%	7.84%	7.73%
* Federal Agencies	8.12	8.30	8.35
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.94	9.09	9.24
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.36	8.53	8.60

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.23%	Apr	8.27%
15- 29 days	8.23	May	8.23
30- 59 days	8.20	Jun.	8.20
60- 89 days	8.15	Jul.	8.18
90-179 days	7.88	Aug	8.19
180-239 days	7.50	Sep.	8.17
240-270 days	7.50		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	8.32%		
90-120 days	8.29	Effective Rate	8.25%

‡ Discount basis *Subject to availability † Estimated

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'89	$ 5,338	$ 5,281	$ 5,017
Gross National Product (1982 Dollars)*	4th Q'89	$ 4,172	$ 4,163	$ 4,069
Percent Change, Annual Rate	4th Q'89	0.9	3.0	2.7
Change in Consumer Prices*	Feb '90n	6.0%	13.2%	4.8%
Change in MH Cost of Living Index*	Feb '90n	12.0%	13.2%	6.0%
Change in Producer Prices*	Feb '90n	0.0%	21.6%	7.2%
Civilian Employment (Thousands of Persons) †	Feb '90	118,035	117,863	116,757
Unemployment as % of Civilian Labor Force †	Feb '90	5.3%	5.3%	5.2%
Personal Income*	Jan '90	$ 4,603	$ 4,567	$ 4,273
Leading Indicators Composite Index (1967=100) †	Jan '90	145.3	145.3	146.0
Industrial Production Index (1977=100) †	Feb '90n	141.8	141.0r	140.5
Net Change in Consumer Installment Credit †	Jan '90	$ 3.54	$ 4.35	$ 22.52
U.S. Merchandise Trade Balance †	Jan '90n	- $ 9.25	- $ 7.68r	-$ 8.52 r
Plant and Equipment Expenditures*	1st Q'90	$ 503.5(a)	$ 485.5(a)	$ 459.5
Private Housing Starts (Thousands of Units)*	Feb '90n	1,477	1,588r	1,454
New Construction Expenditures*	Jan '90	$ 424.0	$ 416.6	$ 423.0
Total Business Inventories †	Jan '90n	$ 796.0	$ 794.1r	$ 760.2 r
Total Business Sales †	Jan '90n	$ 523.0	$ 521.3r	$ 511.5 r

*Seasonally adjusted annual rate † Seasonally adjusted n-Newly reported figure r-Revised a-Anticipated

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Financial Digest

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MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 8

Monday, April 9, 1990

Analysis of
Business
Trends Plus
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Indicators

Manufacturers
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Department
17/270

The Dollar Remains Strong

The combination of slowing economic growth and declining interest rates in the United States, along with robust growth and rising rates abroad, was supposed to result in a considerable weakening of the dollar against the other major currencies this year. Instead, the U.S. currency has held its own against the West German mark and the British pound, while appreciating substantially against the Japanese yen (chart).

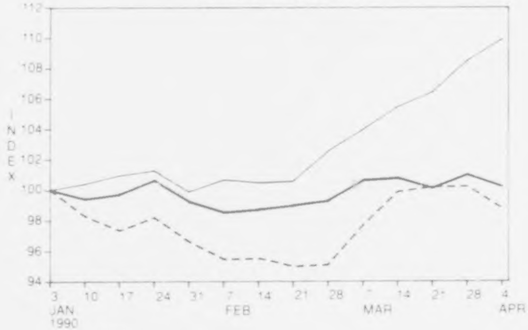
Some of the dollar's recent strength can be attributed to stronger economic performance and more inflation in the United States than previously anticipated. This, in turn, has prompted market participants to revise their expectations that the Federal Reserve would continue to lower U.S. interest rates. At the same time, political unrest in the Soviet Union has increased the "safe haven" allure of the U.S. currency. For the most part, however, the dollar's newfound attraction is due to the marked change in the economic and political environments in Germany, the United Kingdom and Japan, which has left the U.S. currency as one of the few investment alternatives.

Although prospects for strong economic growth and higher interest rates in West Germany triggered a surge in the Deutschemark at the end of last year, its assent has since been stemmed by market fears that monetary union between East and West Germany and additional government spending to rescue the East German economy will produce a higher rate of inflation in West Germany. As a result, political and economic uncertainties in West Germany have caused the dollar to trade within a fairly narrow trading range of 1.67 to 1.72 West German marks so far this year.

The Pound Weakens

Because interest rates in the United Kingdom are among the highest in the industrial world, the pound appreciated considerably against most major currencies earlier this year. However, a resurfacing of economic and political problems triggered a sharp selloff of the pound in late March, transforming it by mid-April into one of the weakest currencies in the industrial world. After reaching highs of over $1.71 and 2.86 Deutschemarks in February, sterling plummeted by more than ten U.S. cents to $1.60 and to a record low of 2.7150 marks in less than a month. Discouraging trade data, expectations that the inflation rate will exceed nine percent by the summer, market disappointment with the 1990/91 budget and uncertainty about interest rate policy have all undermined investor confidence in the British government's economic management.

W. GERMAN MARKS (THICK), JAPANESE YEN (THIN)
AND U.K. POUNDS (DASH) PER U.S. DOLLAR
(JANUARY 3, 1990 = 100)



Source: MH

The sharp deterioration in the political environment has also added to the pound's woes in recent weeks. Another hike in mortgage rates, widespread opposition to a new local tax, the growing unpopularity of Prime Minister Thatcher within her own party and the 20-point lead by the opposition Labor Party in the latest public opinion polls appear to have shaken investor confidence in the Tory Party's ability to govern. While the absence of any recent U.K. economic data has resulted in a modest recovery of the pound in light of its high interest rate status, expectations of a sharply higher inflation rate and worries about the domestic political situation may well cause the currency to resume its downward trend before too long.

The Yen Plunges

Market sentiment is even more bearish toward the Japanese yen. Plagued by relatively low interest rates, hefty capital outflows, a diving stock market, a sharply narrowing current account surplus, increasing trade friction with the United States and market perceptions that the present government lacks the strength to deal with these problems, the yen has fallen to a

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3-1/2 year low of around 160 to the dollar and 94 to the mark, its lowest level against the latter in almost seven years.

Even last month's full percentage point hike in the discount rate to 5.25 percent was not able to break the yen's fall. Most traders believe that the increase was too little and came too late. Although Japanese interest rates are now at their highest levels since 1983, they are still almost a full percentage point below U.S. and German rates.

In addition to Japan's relatively low interest rates, another reason for the yen's weakness is that Japanese companies and investors are sending huge amounts of capital out of the country. In order to get around trade barriers, such as import quotas, many Japanese companies have been setting up production facilities overseas. Financial institutions looking to expand their opportunities and real estate investors seeking higher returns abroad because of Japan's lofty land prices have also sent billions of dollars abroad. As a result, Japanese direct foreign investment ballooned to almost $50 billion last year from barely $12 billion in 1986. At the same time, Japan's relatively low interest rates, high share prices and jittery stock market are prompting some major Japanese investors

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/21/90)	216,794	+ 442	+ 1,569
New York City (3/28/90)	40,448	- 188	2,069
Commercial Paper (3/28/90)	541,708	- 241	+ 528

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loan

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/21/90)	323,943	+ 1,420	+ 11,954
New York City (3/28/90)	57,560	- 830	+ 63

Total Loans and Leases Gross Adju

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/21/90)	1,008,557	+ 4,235	+ 62,406
New York City (3/28/90)	181,097	+ 92	- 1,362

Financial Markets

	Friday 4/6/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.02%	- .03	- 1.10
180-Day Bills†	8.14	- .09	- 1.13
Longest Bills†	8.26	- .06	- 1.25
Recent Issues:			
8½s 3/30/92	8.50	- .12	
8½s 3/30/94	8.56	- .10	
8½s 2/28/00	8.55	- .07	
8½s 2/15/20	8.52	- .09	
Municipals:			
Bond Buyer—20 Bond Index* (4/5/90)	7.33%	-0-	- .23
Blue List Total ($ Million)	$1,570	+ $ 67	+$ 604
30-Day Visible Supply ($ Million)	$2,958	+ $ 540	+$1,077
Total	$4,528	+ $ 607	+$1,681
Corporates:			
Moody's Aa Composite (4/5/90)	9.56	- .01	- .44
30-Day Visible Supply ($ Million)	$359	- $ 930	-$ 2,756
Stocks:			
Dow-Jones Averages:			
Industrials	2,717.12	+ 9.91	+412.32
Transportation	1,174.08	- 9.06	+103.41
Utilities	213.66	- 1.00	+ 26.96
65 Stocks	1,011.04	- 1.06	+131.04
N.Y.S.E. Composite Index	186.78	- .06	+ 20.76
N.Y.S.E. Avg. Daily Vol. for Week (000's)	144,370	+ 12,060	- 14,554

*34% Taxable equivalent 11.11%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/6/90	Week Ago
Overnight	8.25%	8.25%
1 month	8.31	8.31
3 month	8.38	8.38
6 month	8.50	8.63
1 year	8.69	8.88

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/6/90)	Currency Per U.S. $	Week Ago
Belgium	35.09	35.07
Canada	1.1647	1.1710
France	5.7055	5.7095
Germany	1.6973	1.6960
Italy	1246.20	1250.80
Japan	157.65	158.05
Mexico	2745.00	2739.00
Netherlands	1.9110	1.9100
South Korea	698.12	696.00
Switzerland	1.4980	1.4958
Taiwan	26.20	26.41
U.K.*	1.6378	1.6445

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (4/6/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/8
	+0.7%	-6.9%

to look for better returns, and less risk, outside Japan.

What's more, Japan's trade and current account surpluses, once the largest in the world, are shrinking rapidly. The current account surplus declined to $57 billion last year from $80 billion in 1988, while the monthly balance slipped into deficit in January, the first monthly deficit in six years.

Compounding these difficulties, the turmoil in the stock market, the public dispute between the Bank of Japan and the Ministry of Finance over interest rate policy and the growing trade friction with the United States, have all raised market concerns about whether the present government has either the strength or the ability to deal with the country's mounting economic problems.

As a result, present currency trends are likely to continue for the foreseeable future. The dollar should trade within its current 1.67 to 1.72 range against the Deutschemark until the terms of German monetary union are settled. At the same time, the deteriorating economic and political environments in the United Kindom and Japan will probably result in further appreciation of the dollar versus the pound and the yen. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/4/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	226.879	+ 2.285	- 7.747
Loans to Depository Inst.	2.150	+ .013	- .184
Float	.569	+ .379	- .591
Total Reserve Bank Credit	269.490	+ 1.416	+11.390
Treasury Deposits with Federal Reserve Banks	4.455	- 1.051	- .370
Currency in Circulation	258.085	+ 1.070	+14.957
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	224.500	+ 1.010	- 12.534
Member Bank Reserves:	**4/4/90**		
Total Reserves Held	59.293	- .070	+ .245
Excess (Deficiency)	1.120	+ .361	- .185
Net Free Reserves	.928	+ .353	+ .125
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**‡ % Change Since Year Ago**
M1 (3/26/90)	804.8	+ 5.6	+ 2.3
M2 (3/26/90)	3,273.4	+ 6.1	+ 5.9
M3 (3/26/90)	4,070.3	+ 2.8	+ 2.9
Domestic Nonfinancial Debt (4th Q'89)	9,790.0	+ 2.1	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/6/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.74%	7.72%	7.68%
* Federal Agencies	8.30	8.40	8.40
* Municipal Notes–High Grade (34% Taxable Equivalent)	9.09	9.09	9.32
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.35	8.52	8.60

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.20%		
15- 29 days	8.23	May	8.24%
30- 59 days	8.18	Jun.	8.20
60- 89 days	8.15	Jul.	8.17
90-179 days	8.10	Aug	8.17
180-239 days	8.00	Sep.	8.17
240-270 days	8.00	Oct.	8.14

‡ Industrial Paper–Prime			
30- 89 days	8.30%	†Federal Funds	
90-120 days	8.28	Effective Rate	8.19%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'89	$ 5,340 r	$ 5,281	$ 5,017
Gross National Product (1982 Dollars)*	4th Q'89	$ 4,174 r	$ 4,163	$ 4,069
Percent Change, Annual Rate	4th Q'89	1.1 r	3.0	2.7
Change in Consumer Prices*	Feb '90	6.0%	13.2%	4.8%
Change in MH Cost of Living Index*	Feb '90	12.0%	13.2%	6.0%
Change in Producer Prices*	Feb '90	0.0%	21.6%	7.2%
Civilian Employment (Thousands of Persons) †	Mar '90n	118,334	118,035	117,047
Unemployment as % of Civilian Labor Force †	Mar '90n	5.2%	5.3%	5.0%
Personal Income*	Feb '90n	$ 4,636	$ 4,595r	$ 4,320
Leading Indicators Composite Index (1967=100) †	Feb '90n	144.0	145.4r	145.6
Industrial Production Index (1977=100) †	Feb '90	141.8	141.0	140.5
Net Change in Consumer Installment Credit †	Feb '90n	$ 3.42	$ 3.80r	$ 5.38
U.S. Merchandise Trade Balance †	Jan '90	- $ 9.25	- $ 7.68	-$ 8.52
Plant and Equipment Expenditures*	1st Q'90	$ 503.5(a)	$ 485.5(a)	$ 459.5
Private Housing Starts (Thousands of Units)*	Feb '90	1,477	1,588r	1,454
New Construction Expenditures*	Feb '90n	$ 436.5	$ 425.3r	$ 416.6
Total Business Inventories †	Jan '90	$ 796.0	$ 794.1	$ 760.2
Total Business Sales †	Jan '90	$ 523.0	$ 521.3	$ 511.5

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised a-Anticipated

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Financial Digest

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MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 9

Monday, April 23, 1990

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Competitive Challenges Abound

Despite the substantial, export-led narrowing of the non-oil trade deficit in recent years, from a peak of nearly $120 billion in 1986 to $64 billion last year, domestic industry can hardly sit back on its laurels if it wishes to consolidate these gains. For with the dollar stabilizing in the foreign exchange markets, manufacturers will no longer be able to reap significant competitive advantages due to officially-sanctioned dollar depreciation. Quite the contrary. In coming years, the global competitiveness of U.S. industry will hinge on such time-honored virtues as product quality, innovation and cost-containment—all of which require a steady stream of investment in new plant and equipment, labor skills and research and development. Unfortunately, the United States is found wanting in the global investment sweepstakes, especially when compared with Japan.

At first glance, capital spending levels in the United States appear adequate, if unspectacular. According to a recent survey by the Commerce Department, businesses plan to increase spending on new plant and equipment by an inflation-adjusted 7.6 percent in 1990, not far from last year's 8.6 percent gain, and 1988's hefty 8.9 percent advance. Due to these increases, the share of our real gross national product accounted for by fixed investment is now nearly 17 percent, a proportion which has not only been ratcheting a bit higher, but is roughly comparable with investment shares prevailing in Western Europe.

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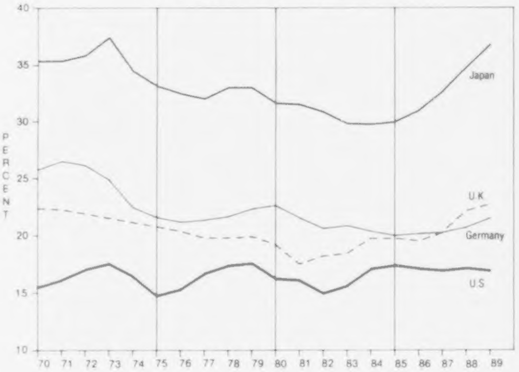
Economics
Department
17/270

At this point, however, the well of good news starts to run dry. For one thing, some backsliding may soon occur since the near-term capital spending outlook is being clouded by a severe corporate earnings slump. For another, while relative investment parity with Western Europe exists, it does not with Japan (see chart), and that country represents the principal competitive challenge to U.S. industry—in both our own backyard and in other markets. Recent trade trends starkly illustrate the difference. Whereas a once formidable trade gap with Western Europe has been entirely eliminated, a frustratingly huge trade imbalance with Japan lingers. And, with investment spending surging in Japan, that country's vaunted industrial prowess—and reputation for product quality—is unlikely to diminish in coming years.

REAL GROSS FIXED INVESTMENT
AS A PERCENT OF REAL GNP/GDP



Capital Spending Pinched?

Take, for example, the profits pinch, and its growing threat to capital spending. With unit labor costs trending higher, interest expense ballooning and the opportunities to increase either sales volumes or selling prices limited by lethargic economic growth and strong consumer resistance to price increases, corporate earnings have been in a tailspin. Before-tax earnings have fallen short of year-earlier levels for three quarters in a row, while after-tax earnings now stand more than ten percent below their fourth quarter 1988 peak and profit margins have tumbled to recessionary levels. What's more, such tell-tale signs of distress as ballooning interest payments and soaring dividend payout ratios abound. In this environment, the challenge to many corporate treasurers is simply to find the dollars necessary to honor past obligations, rather than future investments.

To be sure, internally-generated funds are not the only source of investment capital. Under normal circumstances, a cyclical earnings squeeze could be offset by funds raised externally, such as debt-financing. This time around, however, the erosion of corporate earnings is coinciding with a tightening of commercial bank credit standards, enhanced regulator vigilance, a stingy Federal Reserve monetary policy

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and, in the bond markets, an upward bias to yields. This traces, at least in part, to the usual culprits (a Federal budget deficit stuck at around $150 billion and a paltry national savings rate) and a relatively new one—a pending explosion of Treasury borrowings in order to finance the bailout of the savings and loan industry. As a result, weak earnings, stricter lender scrutiny and rising long-term interest rates have blended into an unhealthy mix, curbing capital spending intentions in many instances, and precluding them entirely in others. Not surprisingly, quick pay-back equipment comprises the lion's share of capital outlays, while spending on new "greenfield" structures languishes.

Japan Looks Ahead

Not so in Japan, however, where an unrelenting capital spending boom persists. Real plant and equipment spending has been surging at a better than 50 percent annual rate over the past six months, helping to push the share of gross national product directed toward investment to a whopping 37 percent in 1989. This proportion has increased for five straight years, and is now double the U.S. proportion. Japan, in fact, has been investing more than the United States not only proportionally, but in absolute terms as

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/4/90)	216,929	+ 103	+ 1,157
New York City (4/11/90)	39,587	- 597	- 2,889
Commercial Paper (4/11/90)	541,389	+ 909	+ 55,179

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/4/90)	324,001	+ 982	+ 11,461
New York City (4/11/90)	57,912	- 429	+ 196

Total Loans and Leases Gross Adjus

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/4/90)	1,003,396	- 2,218	+ 55,660
New York City (4/11/90)	179,528	- 1,766	- 127

Financial Markets

	Friday 4/20/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.94%	- .06	- 1.00
180-Day Bills†	8.23	+ .04	- .85
Longest Bills†	8.41	+ .15	- .91
Recent Issues:			
8½s 3/30/92	8.78	+ .21	
8½s 3/30/94	8.86	+ .24	
8½s 2/28/00	8.93	+ .32	
8½s 2/15/20	8.94	+ .37	
Municipals:			
Bond Buyer—20 Bond Index* (4/19/90)	7.39%	+ .08	- .05
Blue List Total ($ Million)	$1,540	- $ 5	+$ 634
30-Day Visible Supply ($ Million)	$1,550	- $695	+$ 325
Total	$3,090	- $700	+$ 959
Corporates:			
Moody's Aa Composite (4/19/90)	7.67	+ .17	- 2.25
30-Day Visible Supply ($ Million)	$ 375	- $334	- $5,111
Stocks:			
Dow-Jones Averages:			
Industrials	2,694.83	- 56.97	+285.37
Transportation	1,154.88	- 36.62	+ 18.24
Utilities	208.12	- 4.66	+ 17.15
65 Stocks	997.53	- 24.42	+ 75.81
N.Y.S.E. Composite Index	184.06	- 4.74	+ 11.16
N.Y.S.E. Avg. Daily Vol. for Week (000's)	145,386	+ 11,751	- 33,384

*34% Taxable equivalent 11.20%.

† Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/20/90	Week Ago
Overnight	8.18%	8.13%
1 month	8.31	8.25
3 month	8.43	8.38
6 month	8.63	8.50
1 year	8.94	8.69

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/20/90)	Currency Per U.S. $	Week Ago
Belgium	34.75	34.61
Canada	1.1633	1.1655
France	5.6403	5.6140
Germany	1.6797	1.6735
Italy	1233.70	1231.00
Japan	157.45	158.65
Mexico	2759.00	2751.00
Netherlands	1.8988	1.8845
South Korea	697.63	698.32
Switzerland	1.4850	1.4840
Taiwan	26.16	26.15
U.K.*	1.6430	1.6393

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (4/20/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.8%	-5.5%

well over the past two years—even though the Japanese economy is roughly half the size of ours.

While hefty capital spending is often cited as a hallmark of Japan's vitality and foresight, it is also a reflection of lower capital costs. Long-term interest rates have generally been lower, and equity price-earnings ratios higher, than those prevailing in either the United States or Europe, facilitating the raising of long-term funds and lowering the hurdle rates of return required on contemplated investments. Even the recent turbulence in Japan's stock and bond markets won't change things all that much. While capital costs may have increased somewhat, the effects will be small. Japanese corporations will just dip into the sizable cash reserves they have built up during the recent years of heady profits growth to finance capital outlays. For the United States, this is hardly good news. Although closing the investment gap with Japan is a precondition to recapturing lost product markets here and abroad, it's an impossible dream unless corporate America reverses its earnings slide, households boost savings and the Federal government puts its financial house in order. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/18/90	$ Change Since	
Reserve Bank Credit		Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	232.145	+ 1.618	- 7.222
Loans to Depository Inst.	1.750	- .263	- 1.157
Float	1,575	+ .977	+ 1.032
Total Reserve Bank Credit	275.587	+ 2.581	+12.152
Treasury Deposits with Federal Reserve Banks	4.981	+ .236	- 1.983
Currency in Circulation	260.929	+ 1.001	+16.678
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	223.465	+ 1.398	- 15.438
Member Bank Reserves:	**4/18/90**		
Total Reserves Held	61.941	+ 2.684	+ 1.744
Excess (Deficiency)	.782	- .304	+ .559
Net Free Reserves	.576	- .318	+ .965
		‡ % Change Since	
Monetary Aggregates †		**3 Months Ago***	**Year Ago**
M1 (4/9/90)	805.6	+ 4.4	+ 2.8
M2 (4/9/90)	3,275.8	+ 5.8	+ 5.9
M3 (4/9/90)	4,076.5	+ 2.7	+ 2.7
Domestic Nonfinancial Debt (4th Q'89)	9,790.0	+ 2.1	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/20/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.70%	7.81%	7.82%
* Federal Agencies	8.30	8.40	8.50
* Municipal Notes–High Grade (34% Taxable Equivalent)	9.39	9.39	9.39
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.46	8.65	8.75

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.20%		
15- 29 days	8.23	May	8.25%
30- 59 days	8.18	Jun.	8.23
60- 89 days	8.15	Jul.	8.24
90-179 days	8.10	Aug	8.25
180-239 days	8.00	Sep.	8.25
240-270 days	8.00	Oct.	8.24
‡ Industrial Paper–Prime			
30- 89 days	8.25%	†Federal Funds	
90-120 days	8.25	Effective Rate	8.19%

‡ Discount basis *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'89	$ 5,340	$ 5,281	$ 5,017
Gross National Product (1982 Dollars)*	4th Q'89	$ 4,174	$ 4,163	$ 4,069
Percent Change, Annual Rate	4th Q'89	1.1	3.0	2.7
Change in Consumer Prices*	Mar '90n	6.0%	6.0%	6.0%
Change in MH Cost of Living Index*	Mar '90n	7.2%	12.2%	8.4%
Change in Producer Prices*	Mar '90n	- 2.4%	0.0%	4.8%
Civilian Employment (Thousands of Persons) †	Mar '90	118,334	118,035	117,047
Unemployment as % of Civilian Labor Force †	Mar '90	5.2%	5.3%	5.0%
Personal Income*	Feb '90	$ 4,636	$ 4,595r	$ 4,320
Leading Indicators Composite Index (1967=100) †	Feb '90	144.0	145.4	145.6
Industrial Production Index (1977=100) †	Mar '90n	108.8	108.1r	107.7r
Net Change in Consumer Installment Credit †	Feb '90	$ 3.42	$ 3.80	$ 5.38
U.S. Merchandise Trade Balance †	Feb '90n	- $ 6.49r	- $ 9.32r	-$ 8.92
Plant and Equipment Expenditures*	2nd Q'90n	$ 509.1(a)	$ 502.7(a)r	$ 470.9
Private Housing Starts (Thousands of Units)*	Mar '90n	1,321	1,457r	1,405
New Construction Expenditures*	Feb '90	$ 436.5	$ 425.3	$ 416.6
Total Business Inventories †	Feb '90n	$ 794.6	$ 797.5r	$ 765.0r
Total Business Sales †	Feb '90n	$ 535.4	$ 528.6r	$ 512.3r

*Seasonally adjusted annual rate. † Seasonally adjusted n-Newly reported figure r-Revised a-Anticipated

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Focus: Norway

As Norway enters the 1990's, conditions favorable to business and economic growth continue. Shipping is booming. Industries are restructuring. Companies are expanding globally. The bond market has reopened to foreign investors.

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MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 10

Monday, May 7, 1990

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

The U.S. Trade Deficit Narrows

Defying widespread predictions made at the end of last year that U.S. trade progress would stall this year and could even reverse, February's $6.49 billion trade deficit was the smallest monthly shortfall posted since December 1983. While February's trade figure was an exceptionally good number, looking back over the last twelve months, the United States continued to make progress in reducing its trade imbalances with most countries.

Although not as good as the 24 percent improvement in the previous year, the cumulative trade deficit of $107.4 billion posted in the period from March 1989 through February 1990 was some 5½ percent smaller than the $113.6 billion shortfall recorded in the previous twelve months. What is more, the average monthly trade gap of $7.9 billion in the first two months of 1990 was $1 billion below the average $9.8 billion monthly deficit registered over the past twelve months, indicating further improvement this year.

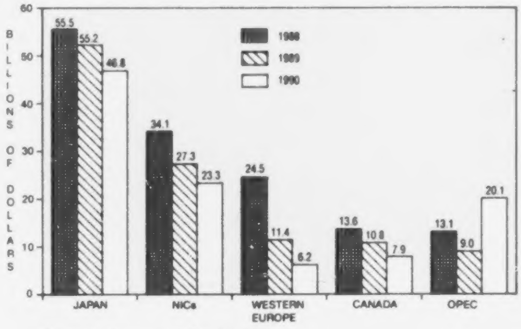
February's sharp improvement came on the import side of the ledger, reflecting a 7.6 percent drop in purchases of foreign goods, to $38.1 billion from $41.3 billion in January. Oil accounted for nearly two-fifths of this decline as both petroleum prices and import volumes were down substantially in February, following January's weather-related surge. During the first two months of this year, however, total imports were up by 6.7 percent from the January-February period in 1989. This was a slightly slower pace than both the 7.6 percent gain posted in the twelve months ending February compared to the same period a year earlier and the 7.1 percent increase recorded two years ago.

At the same time, while the rate of export growth over the past twelve months has decelerated from the rapid 25 percent clip registered in the previous year, foreign sales are still running close to twice the pace of import growth. In the period from March 1989 to February 1990, foreign sales climbed by almost 13 percent from the previous twelve months compared with a 7½ percent increase in imports during the same period. Exports in February benefited from the end of the strike at the Boeing Company. The value of aircraft exports jumped to $2.3 billion from $1.1 billion in January, bringing total exports to $31.6 billion, or just shy of the record $31.9 billion export figure reached in January.

The Improvement Is Worldwide

Looking globally, the United States has pared its trade deficit with all of its major trading partners during the latest twelve months except the oil exporting countries (OPEC), as the chart indicates. The biggest improvement has been with Western Europe, where our trade gap plunged to barely $6 billion in the period from March 1989 to February 1990. This compares with a deficit of $11 billion in the previous twelve months and almost $25 billion two years ago. In fact, the United States actually posted a $650 million trade *surplus* with Western Europe during the first two months of this year versus a $580 million deficit in the same 1989 period.

U.S. MERCHANDISE TRADE DEFICIT
WITH SELECTED TRADING PARTNERS
(12-MONTHS ENDING FEBRUARY)



Source: Commerce Department

Thanks to the high-flying Canadian dollar, the United States also reduced its trade deficit with Canada, our largest trading partner, to less than $8 billion in the latest twelve months from $11 billion a year earlier and nearly $14 billion two years ago. So, too, the deficit with the newly industrialized countries (NICs) of Southeast Asia (Taiwan, South Korea, Hong Kong and Singapore) shrank to $23 billion from $27 billion in the previous twelve months and $34 billion two years ago.

Despite a 17 percent appreciation of the dollar versus the yen during the twelve months ended in February, we've even made some progress in reducing our trade deficit with Japan. The U.S. 12-month trade shortfall with Japan is now $46.8 billion versus $52.2 billion in the period

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from March 1988 to February 1989 and $[illegible].2 billion the previous year. As a result, while Japan is still the country with whom we have the largest deficit by far, that nation's share of our total trade gap declined to 43.6 percent in the latest twelve months from 45.6 percent in the same period a year ago.

In fact, the only group of countries with whom our bilateral trade deficit has widened over the past twelve months is OPEC. Reflecting a general rebound in oil prices during that period and the growing U.S. dependence on foreign oil, our trade deficit with OPEC more than doubled to $20 billion during the twelve months ending February 1990 from $9 billion in the previous year. What is more, oil now accounts for over 11 percent of U.S. imports and 41 percent of the trade deficit, up from less than nine percent and 30 percent, respectively, a year ago.

Prospects For The Rest Of The Year Are Good

Although the monthly trade data are extremely volatile, figures for the first two months of 1990 suggest that the U.S. trade gap for the entire year could fall below $100 billion for the first time since 1983. For this to happen, the monthly shortfall would have to average $8.3 billion for the rest of the year, versus the January-February average of $7.9 billion. Prospects

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (4/18/90)	214,080	- 1,990	+ 951
New York City (4/25/90)	39,430	- 7	- 3,524
Commercial Paper (4/25/90)	545,742	+ 3,916	+ 47,840

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (4/18/90)	326,240	+ 2,350	+ 12,103
New York City (4/25/90)	58,477	- 672	- 156

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (4/18/90)	1,011,959	+ 9,006	+ 58,967
New York City (4/25/90)	180,922	- 2,536	+ 4,626

Financial Markets

	Friday 5/4/90	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.00%	- .01	- .72
180-Day Bills†	8.22	- .13	- .60
Longest Bills†	8.38	- .13	- .57
Recent Issues:			
8⅞s 4/30/92	8.70	- .23	
8½s 3/30/94	8.80	- .24	
8½s 2/28/00	8.82	- .21	
8½s 2/15/20	8.81	- .21	
Municipals:			
Bond Buyer—20 Bond Index* (5/3/90)	7.54%	- .03	+ .18
Blue List Total ($ Million)	$1,194	- $326	+$ 100
30-Day Visible Supply ($ Million)	$3,047	+ $928	+$1,812
Total	$4,241	+ $602	+$1,912
Corporates:			
Moody's Aa Composite (5/3/90)	9.84	+ .04	- .05
30-Day Visible Supply ($ Million)	$ 220	- $155	- $4,655
Stocks:			
Dow-Jones Averages:			
Industrials	2,710.36	+ 65.31	+328.40
Transportation	1,145.09	+ 16.89	+ 15.24
Utilities	208.38	+ 4.66	+ 15.52
65 Stocks	998.35	+ 21.03	+ 82.93
N.Y.S.E. Composite Index	185.38	+ 4.64	+ 13.24
N.Y.S.E. Avg. Daily Vol. for Week (000's)	139,988	+ 4,056	-23,528

*34% Taxable equivalent 11.42%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/4/90	Week Ago
Overnight	8.00%	8.13%
1 month	8.31	8.44
3 month	8.44	8.56
6 month	8.63	8.81
1 year	8.94	9.18

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/4/90)	Currency Per U.S. $	Week Ago
Belgium	34.48	34.67
Canada	1.1653	1.1634
France	5.6120	5.6395
Germany	1.6725	1.6900
Italy	1225.20	1231.50
Japan	158.60	159.00
Mexico	2773.00	2767.00
Netherlands	1.8805	1.8898
South Korea	697.43	698.52
Switzerland	1.4545	1.4455
Taiwan	26.19	26.18
U.K.*	1.6570	1.6355

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (5/4/90) (Adjusted for Inflation)	Change Since	
	Week Ago	2/27/85
	+0.4%	-4.1%

for further trade improvement are greatest with Western Europe. Robust economic growth should continue in these countries, due to ongoing efforts to restructure their economies ahead of the single market by 1992. This will keep investment strong, increasing their demand for capital goods imports. At the same time, inflation pressures in Canada will keep the Canadian/U.S. interest rate differential substantially in Canada's favor. This should enable the Canadian dollar to remain strong against its U.S. counterpart, helping to boost our exports north of the border. Our trade deficit with the NICs should also continue to improve. This is because Taiwan, the country with whom we have the largest shortfall after Japan, is expected to shrink its surplus with the United States to less than $10 billion in 1990 from $13 billion in 1989 because of a recently-launched export diversification program.

There are two major uncertainties in an otherwise bright U.S. trade outlook this year. The first is whether the yen's current weakness and/or the U.S.'s strong appetite for Japanese automobiles, electronics and machinery will stall, if not reverse, our trade improvement with Japan. The other is the direction of oil prices at a time when the United States is becoming increasingly reliant on foreign oil. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/2/90	**$ Change Since Week Ago**	**$ Change Since Year Ago**
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	230.442	- .357	- 23.340
Loans to Depository Inst.	.989	- .330	- .929
Float	.476	+ .284	- .162
Total Reserve Bank Credit	272.521	- .014	- 5.262
Treasury Deposits with Federal Reserve Banks	4.543	+ .520	- 17.442
Currency in Circulation	259.936	- .362	+16.179
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	223.360	+ .369	- 13.541
Member Bank Reserves:	**5/2/90**		
Total Reserves Held	60.734	- 1.162	+ .521
Excess (Deficiency)	1.138	+ .473	- .103
Net Free Reserves	.882	+ .423	+ .222
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**‡ % Change Since Year Ago**
M1 (4/23/90)	805.6	+ 5.6	+ 3.4
M2 (4/23/90)	3,278.6	+ 6.1	+ 6.0
M3 (4/23/90)	4,073.6	+ 2.9	+ 2.7
Domestic Nonfinancial Debt (4th Q'89)	9,790.0	+ 2.1	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/4/90	**3 Months**	**6 Months**	**1 Year**
‡ U.S. Treasury Bills	7.76%	7.80%	7.80%
* Federal Agencies	8.30	8.50	8.70
* Municipal Notes–High Grade (34% Taxable Equivalent)	9.47	9.47	9.47
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.40	8.60	8.65

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.20%	Jun.	8.22%
15- 29 days	8.23	Jul.	8.22
30- 59 days	8.18	Aug.	8.22
60- 89 days	8.15	Sep.	8.22
90-179 days	8.10	Oct.	8.22
180-239 days	8.00	Nov.	8.20
240-270 days	8.00		

‡ Industrial Paper–Prime			
30- 89 days	8.22%	†Federal Funds	
90-120 days	8.30	Effective Rate	8.19%

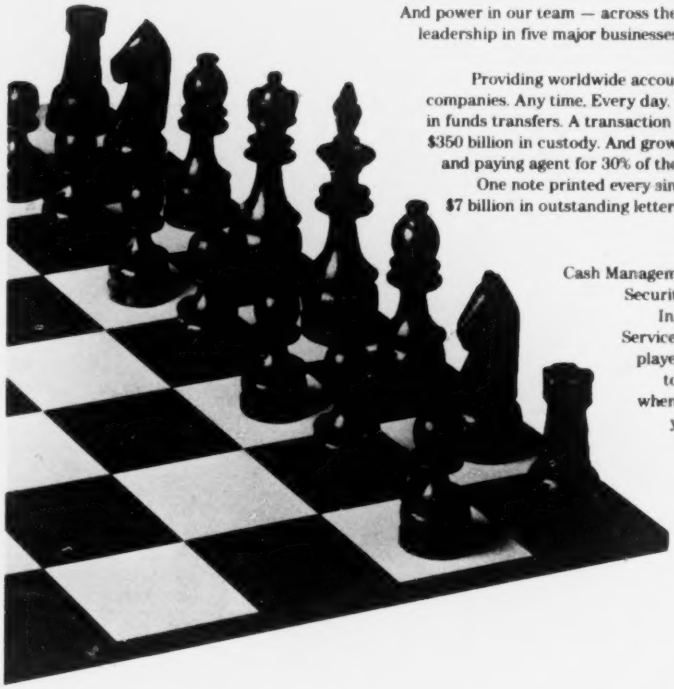
‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		**Previous Period**	**Year Ago Period**
Gross National Product (Current Dollars)*	1st Q'90n	$ 5,441	$ 5,340	$ 5,113
Gross National Product (1982 Dollars)*	1st Q'90n	$ 4,196	$ 4,174	$ 4,107
Percent Change, Annual Rate	1st Q'90n	2.1	1.1	3.7
Change in Consumer Prices*	Mar '90	6.0 %	6.0%	6.0%
Change in MH Cost of Living Index*	Mar '90	7.2 %	12.2%	8.4%
Change in Producer Prices*	Mar '90	- 2.4 %	0.0%	4.8%
Civilian Employment (Thousands of Persons) †	Apr '90n	118,116	118,334	117,084
Unemployment as % of Civilian Labor Force †	Apr '90n	5.4%	5.2%	5.3%
Personal Income*	Mar '90n	$ 4,670	$ 4,634r	$ 4,361
Leading Indicators Composite Index (1967=100) †	Mar '90n	145.2	143.9r	144.7
Industrial Production Index (1977=100) †	Mar '90	108.8	108.1	107.7
Net Change in Consumer Installment Credit †	Feb '90	$ 3.42	$ 3.80	$ 5.38
U.S. Merchandise Trade Balance †	Feb '90	- $ 6.49	- $ 9.32	-$ 8.92
Plant and Equipment Expenditures*	2nd Q'90	$ 509.1(a)	$ 502.7(a)	$ 470.9
Private Housing Starts (Thousands of Units)*	Mar '90	1,321	1,457	1,405
New Construction Expenditures*	Mar '90n	$ 432.5	$ 438.6r	$ 416.8
Total Business Inventories †	Feb '90	$ 794.6	$ 797.5	$ 765.0
Total Business Sales †	Feb '90	$ 535.4	$ 528.6	$ 512.3

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.



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Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

Twin Threats

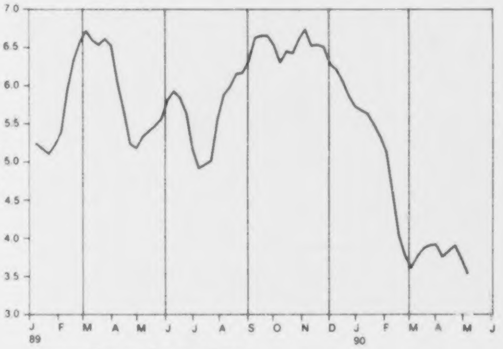
It must be spring. Similar to the rapidly changing weather patterns which buffet large swaths of the country at this time of year, the financial markets have been recently roiled by a fast-flowing flood of contradictory economic statistics, some providing scattered evidence of a pick-up in business activity and a quickening of inflation, and others pointing in the opposite direction. Having said this, however, the April employment numbers cleared the air a bit, providing a strong hint that the economy is more lethargic than robust, and that a Federal Reserve firming of monetary policy is both unwarranted and inappropriate. But just while the danger of a Fed-engineered run-up in interest rates may have ebbed, there is a growing threat from another quarter. The adoption of stricter lending standards by commercial banks is thought to be touching off a new style credit crunch, and the end result might be the same as if monetary policy was aggressively tightened. This fear, too, is exaggerated, diminishing in direct proportion to the distance from recession-scarred New England.

While the longer-run implications of any monthly statistic are problematic at best, the monthly employment data are carefully scrutinized since they provide the framework for follow-up reports on personal income, industrial production and industry operating rates. And April was no exception, providing an initial glimpse of the economy's health in the current quarter. Contrary to expectations, the prognosis jolted the apocalyptic pundits who were assuring us that interest rates were on an elevator ride upward. According to the Labor Department, nonfarm payroll employment rose by an unexpectedly paltry 64,000 persons in April, a jobs gain which was in the plus column only because of a large bulge in temporary new hires by the Census Bureau. Weakness was widespread, with private sector payroll employment dropping for the second month in a row, something that hasn't happened in over seven years, factory employment declining again and the average workweek remaining unchanged. New factory jobs were so scarce, in fact, that the proportion of nonagricultural industries reporting a monthly gain in payroll employment slipped to one of its lowest levels since the 1981-82 recession.

Inflation Subsides

In light of the relative dearth of generally higher paying goods-producing jobs, it was hardly surprising that wage pressures not only remained muted, but seemed to be subsiding. Since this is a key indicator of the proximity of the inflation threat, signs of a benign wage environment were just as pleasing to the financial markets as the weak employment numbers. For notwithstanding a better than 13 percent increase in the minimum hourly wage rate on April 1, average hourly earnings growth actually slowed last month, inching ahead by 0.3 percent month-over-month. This brought the 12-month change in earnings to 3½ percent, the slowest year-over-year increase since late 1988, and not far from average annual wage growth during the 1984-89 period.

C & I LOANS AT LARGE COMMERCIAL BANKS
(YEAR-OVER-YEAR PERCENT CHANGES)



Source: Federal Reserve Board

Wage trends are not the only footprints of an ebbing inflation threat. With oil prices retreating, gold prices soft and commodity prices stabilizing, several good months of inflation news lie ahead. Nor is there much inflation in the so-called "pipeline". The 0.3 percent decrease in producer prices in April brought the rise in these prices to 3.5 percent during the past year. What is more, prices for intermediate goods were virtually unchanged over the past 12 months while prices for crude materials dropped by 1.5 percent. At retail, the clothing-price led bulge in the consumer price index is over for now, further brightening the inflation outlook. For these reasons, the likelihood of a tightening of the monetary screws, which only recently was being urged on the Federal Reserve, has receded.

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A Credit "Crunch" In The Works?

While the Fed may be disinclined to tighten credit anytime soon, the economy may not be completely out of the interest rate woods yet. This is because there is a growing fear that the commercial banks and regulators are doing the job for them—producing an unintended credit "crunch". The perceived crunch is a by-product of several factors. These include the implementation of tougher credit standards by commercial banks in the wake of hefty loan losses in the 1980s, a desire to limit bank asset growth in order to satisfy the stricter capital requirements of the 1990s, and heightened regulator vigilance, designed both to avoid a repetition of losses of the '80s and to comply with the rules of the '90s. Since this could coincide with rising credit demands due to a flattening of cash flow growth, the potential exists for a sharp downdraft in business spending for inventories, employment and capital equipment later this year.

For now, however, evidence of a crunch is regionally scattered, and largely anecdotal. Although the growth of commercial and industrial loans outstanding has slowed from a better than seven percent yearly clip in the latter part of 1989 to less than three percent currently (see chart), the implications of this are unclear. Banks have hardly turned off the credit tap, and most appear ready to respond positively to creditworthy new business. Credit demands may have simply shifted from the banks to the less expensive commercial paper market, where nonfinancial company outstandings have been rising by about $1¼ billion per week so far this year, and are up by more than 22 percent over the past year. Even real estate-related lending continues to grow. Real estate footings at the nation's commercial banks reached a record high of $367 billion in early May, up nearly 14 percent over the past 12 months. To be sure, the numbers mask wide regional disparities, ranging from strength on the West Coast to pronounced weakness in New England, but at this juncture the presumed credit crunch is not seriously restricting either the economy in general, or construction activity in particular.

Interest rate spreads are not signaling a credit crunch, either. The yield differential between corporate and Treasury debt has actually been narrowing since the turn of the year. It would be going the other way if the availability of business credit was tightening. As a result, while the prospect of a credit crunch cannot be dismissed, especially for small- and medium-sized firms, it doesn't seem to be here yet, judging by the debt totals and the relevant interest rate spreads. ■

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/2/90)	214,306	+ 42	- 374
New York City (5/9/90)	39,486	- 355	- 3,085
Commercial Paper (5/9/90)	556,587	+ 5,313	+ 53,205

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/2/90)	326,990	+ 1,738	+ 9,092
New York City (5/9/90)	58,965	- 256	+ 364

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/2/90)	1,015,365	+ 7,789	+ 60,977
New York City (5/9/90	181,555	- 2,658	+ 8,966

Financial Markets

	Friday 5/18/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.98 %	+ .12	- .66
180-Day Bills†	8.14	+ .11	- .69
Longest Bills†	8.30	+ .10	- .58
Recent Issues:			
8⅞s 4/30/92	8.60	+ .06	
8½s 3/30/94	8.71	+ .08	
8⅞s 5/15/00	8.74	+ .09	
8¾s 5/15/20	8.70	+ .06	
Municipals:			
Bond Buyer—20 Bond Index* (5/17/90)	7.29 %	- .10	+ .11
Blue List Total ($ Million)	$ 964	- $ 11	- $ 83
30-Day Visible Supply ($ Million)	$2,477	+ $164	+$ 362
Total	$3,441	+ $153	+$ 279
Corporates:			
Moody's Aa Composite (5/17/90)	9.66	- .15	- .07
30-Day Visible Supply ($ Million)	$ 550	- $350	- $1,384
Stocks:			
Dow-Jones Averages:			
Industrials	2,819.91	+ 18.33	+318.81
Transportation	1,177.28	- .17	+ 20.91
Utilities	214.79	- 2.20	+ 14.28
65 Stocks	1,033.25	+ 1.73	+ 80.68
N.Y.S.E. Composite Index	193.52	+ 1.28	+ 14.60
N.Y.S.E. Avg. Daily Vol. for Week (000's)	170,651	+ 6,309	- 22,799

*34% Taxable equivalent 11.05%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/18/90	Week Ago
Overnight	8.06%	8.13%
1 month	8.19	8.19
3 month	8.31	8.31
6 month	8.44	8.44
1 year	8.75	8.63

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/18/90)	Currency Per U.S. $	Week Ago
Belgium	34.14	33.77
Canada	1.1775	1.1784
France	5.5695	5.5125
Germany	1.6525	1.6310
Italy	1215.20	1203.50
Japan	152.80	152.90
Mexico	2788.00	2781.00
Netherlands	1.8568	1.8333
South Korea	701.10	699.41
Switzerland	1.3995	1.4060
Taiwan	27.19	26.20
U.K.*	1.6898	1.6820

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (5/18/90) (Adjusted for inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.8 %	-3.2 %

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/16/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	232.313	+ 1.296	- 13.435
Loans to Depository Inst.	1.082	+ .215	- .652
Float	.680	+ .025	- .297
Total Reserve Bank Credit	274.190	+ .956	+ 4.501
Treasury Deposits with Federal Reserve Banks	5.037	+ .197	- 11.129
Currency in Circulation	262.218	+ .937	+16.511
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	223.637	+ .466	- 14.033
Member Bank Reserves:	5/16/90		
Total Reserves Held	59.285	- 1.378	+ 1.209
Excess (Deficiency)	.862	- .236	+ .003
Net Free Reserves	.559	- .283	+ .233

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (5/7/90)	805.5	+ 5.9	+ 3.2
M2 (5/7/90)	3,271.6	+ 4.7	+ 6.0
M3 (5/7/90)	4,067.7	+ 1.9	+ 2.6
Domestic Nonfinancial Debt (4th Q'89)	9,790.0	+ 2.1	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 5/18/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.74%	7.73%	7.72%
* Federal Agencies	8.30	8.50	8.70
* Municipal Notes–High Grade (34% Taxable Equivalent)	9.47	9.47	9.47
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.36	8.51	8.60

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.10%	Jun.	8.14%
15- 29 days	8.10	Jul.	8.12
30- 59 days	8.13	Aug.	8.12
60- 89 days	8.13	Sep.	8.21
90-179 days	8.12	Oct.	8.10
180-239 days	8.00	Nov.	8.08
240-270 days	8.00		

‡ Industrial Paper–Prime			
30- 89 days	8.18%	†Federal Funds	
90-120 days	8.15	Effective Rate	8.19%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'90	$ 5,441	$ 5,340	$ 5,113
Gross National Product (1982 Dollars)*	1st Q'90	$ 4,196	$ 4,174	$ 4,107
Percent Change, Annual Rate	1st Q'90	2.1	1.1	3.7
Change in Consumer Prices*	Apr '90n	2.4 %	6.0%	8.4%
Change in MH Cost of Living Index*	Apr '90n	1.2 %	7.2%	6.0%
Change in Producer Prices*	Apr '90n	- 3.6 %	- 2.4%	7.2%
Civilian Employment (Thousands of Persons) †	Apr '90	118,116	118,334	117,084
Unemployment as % of Civilian Labor Force †	Apr '90	5.4%	5.2%	5.3%
Personal Income*	Mar '90	$ 4,670	$ 4,634	$ 4,361
Leading Indicators Composite Index (1967=100) †	Mar '90	145.2	143.9	144.7
Industrial Production Index (1977=100) †	Apr '90n	108.7	109.1r	108.6
Net Change in Consumer Installment Credit †	Mar '90n	$ 2.62	$ 0.06r	$ 5.60r
U.S. Merchandise Trade Balance †	Mar '90n	- $ 8.45	- $ 6.10r	-$ 8.92
Plant and Equipment Expenditures*	2nd Q'90	$ 509.1(a)	$ 502.7(a)	$ 470.9
Private Housing Starts (Thousands of Units)*	Apr '90n	1,245	1,321	1,341
New Construction Expenditures*	Mar '90	$ 432.5	$ 438.6	$ 416.8
Total Business Inventories †	Mar '90n	$ 794.0	$ 794.0r	$ 767.3r
Total Business Sales †	Mar '90n	$ 539.1	$ 535.9r	$ 512.8r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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Financial Digest

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MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 12

Monday, June 4, 1990

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Unity Unnerves West Germany's Markets

Positive market reaction to the agreement reached between the Bonn and East Berlin governments on the key terms for German monetary union caused the Deutschemark to appreciate to around 1.63 marks per dollar in early May, its strongest level against the dollar in over two years. However, the West German currency is once again undergoing downward pressure because of market fears about the huge financial and social costs of restructuring the East German economy.

According to the final terms of monetary union, East Germans between the ages of 15 and 60 will be allowed to convert their savings of up to 4,000 East German marks into Deutschemarks at a rate of one-for-one. They must use a rate of two-for-one thereafter. East Germans who are over 60 may swap 6,000 East German marks for Deutschemarks at a one-for-one exchange rate, while those younger than 14 may only convert 2,000 East German marks at the one-for-one rate. The agreement also stipulates that wages and pensions will be converted at the one-for-one exchange rate, while corporate debts owed to the previously state-owned banking sector will be converted into Deutschemarks at the rate of two-for-one.

Manufacturers
Hanover
Economics
Department
17/270

Inflation Should Remain Low

Although these terms of monetary union are somewhat more generous than the Bundesbank's initial proposals, both Bundesbank President Karl Otto Poehl and West German Finance Minister Theo Waigel have emphasized that the introduction of the Deutschemark into East Germany on July 2 need not produce a surge in West Germany's inflation rate. For one thing, the increase in productivity from the united economies is expected to match the anticipated ten percent rise in the money supply. For another, rather than go on a spending spree, most East Germans will probably hold on to their savings in order to protect themselves should they become unemployed. As East Germany makes the transition to a free market economy, the sudden exposure of East German companies to international competition will cause many of them to go bankrupt and/or layoff workers.

Most economists now believe that West Germany's year-over-year inflation rate will rise to the 3½ percent neighborhood by the end of this year. Although higher than the current rate of 2.3 percent, it will still be well below the anticipated European average inflation rate of over five percent.

With the terms of monetary union set, Finance Minister Waigel and his East German counterpart, Walter Romberg signed a treaty on May 18 intended to merge the two German economies next month. Provided that the treaty is ratified by both the East and West German Parliaments later this month, not only will the Deutschemark be legal tender in East Germany, but the Bundesbank will have responsibility for monetary policy in all of Germany. At the same time, East Germany must adopt West Germany's free-market economic policies. What is more, existing West German laws in the monetary area, including those on banking, insurance, tax and legal systems, will be extended to the East. The treaty also confirms that European Community (EC) laws will be respected in a unified Germany.

The monetary and economic union covered by the treaty is the most decisive step so far toward full unification of the two countries, expected to happen sometime next year. What the treaty doesn't cover, however, are the critical issues concerning the tremendous cost of financing the reconstruction of East German industry, agriculture and infrastructure, who will bear this cost and what help there will be for the East German companies that go bankrupt and East German workers who lose their jobs during the country's transition to free-market policies.

According to analysts in both East and West Germany, less than one-third of East German companies will be able to survive the transition without some help. At the same time, with wages in East Germany likely to rise substantially (or else workers will all move West), the number of unemployed workers is projected to reach two million, around one-fourth of the workforce, by the end of next year, versus 100,000 today.

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Concerns among West Germans that paying for this will mean higher taxes and lower living standards for them were a major reason why Chancellor Kohl's ruling Christian Democrat Party did so poorly in last month's election. They lost control of the upper house of Parliament to the opposition Social Democrats. With their new ability to block legislation, the Social Democrats are now demanding that the treaty on economic and monetary union include measures to help East German companies and unemployed workers.

But Hefty Borrowing May Boost Interest Rates

This squabbling between the two parties has refocused the attention of the financial/currency markets on the huge financial and social costs of restructuring the East German economy. Widespread market nervousness about these costs, in turn, has resulted in a decline of the Deutschemark, as well as of West German bond and equity prices, in recent days.

Although it is impossible to determine the additional strain that financing German unity will place on West Germany's public sector, the Bonn government estimates this cost at around 50 billion marks (almost $30 billion) per year. Given the Bundesbank's firm anti-inflation stance, the rise in public spending is highly un-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/16/90)	215,378	- 191	- 973
New York City (5/23/90)	39,621	- 87	- 3,578
Commercial Paper (5/23/90)	549,446	- 948	+ 47,654

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loa

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ag
Nationwide (5/16/90)	325,742	- 996	+ 8,840
New York City (5/23/90)	58,717	- 1,137	- 714

Total Loans and Leases Gross Adj

	Latest Week	Change Since Week Ago	Change Since Year Ag
Nationwide (5/16/90)	1,013,926	+ 2,659	+ 57,829
New York City (5/23/90	181,323	- 2,640	+ 4,638

Financial Markets

	Friday 6/1/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.93%	- .06	- .71
180-Day Bills†	7.99	- .17	- .58
Longest Bills†	8.04	- .18	- .52
Recent Issues:			
8½s 5/31/92	8.29	- .23	
8½s 3/30/94	8.38	- .24	
8⅞s 5/15/00	8.42	- .26	
8¾s 5/15/20	8.42	- .24	
Municipals:			
Bond Buyer—20 Bond Index* (5/31/90)	7.26%	-0-	+ .11
Blue List Total ($ Million)	$1,340	+ $182	+$ 114
30-Day Visible Supply ($ Million)	$1,816	- $259	- $1,497
Total	$3,156	- $ 77	- $1,383
Corporates:			
Moody's Aa Composite (5/31/90)	9.60	- .02	+ .02
30-Day Visible Supply ($ Million)	$ 880	+ $225	- $1,075
Stocks:			
Dow-Jones Averages:			
Industrials	2,900.97	+ 80.05	+383.14
Transportation	1,190.15	+ 37.41	+ 31.84
Utilities	211.71	+ .44	+ 8.24
65 Stocks	1,049.65	+ 25.53	+ 91.42
N.Y.S.E. Composite Index	198.03	+ 4.32	+ 16.54
N.Y.S.E. Avg. Daily Vol. for Week (000's)	173,152	+ 9,682	- 18,296

*34% Taxable equivalent 11.00%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/1/90	Week Ago
Overnight	8.06%	8.06
1 month	8.19	8.13
3 month	8.19	8.25
6 month	8.25	8.38
1 year	8.38	8.63

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/1/90)	Currency Per U.S. $	Week Ago
Belgium	34.85	34.65
Canada	1.1723	1.1838
France	5.7140	5.6615
Germany	1.6937	1.6822
Italy	1246.50	1235.00
Japan	151.35	149.80
Mexico	2799.00	2794.00
Netherlands	34.85	34.65
South Korea	703.19	703.68
Switzerland	1,4365	1.4232
Taiwan	27.15	27.18
U.K.*	1.6835	1.6909

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (6/1/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27
	+0.4%	-2.3

likely to be financed by printing money. At the same time, Chancellor Kohl has ruled out tax increases, insisting that a surge in tax revenues due to the robust economic growth that develops from a united Germany will make it unnecessary to raise taxes.

However, government borrowing will clearly have to rise substantially. In fact, Finance Minister Waigel has just announced plans for a special unification fund to raise 95 billion marks on the domestic markets over the next four and a half years. Thus, the combination of strong credit demand and the Bundesbank's tight monetary policy probably spells higher interest rates in Germany.

From here, it would appear that the economic policies of Germany in the early 1990s will be quite similar to those of the United States in the early 1980s: High interest rates owing to a tight monetary policy and an expansionary fiscal policy. High interest rates alone should eventually push the Deutschemark higher. This will force other countries (especially in Europe) to choose between raising their own interest rates or allowing their currencies to depreciate against the Deutschemark. That is, they may well be the ones who will have to choose between slower growth or higher inflation. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	5/30/90	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	231.388	+ 1.866	- .744
Loans to Depository Inst.	2.083	+ .720	+ .462
Float	.459	- .807	- .196
Total Reserve Bank Credit	273.363	+ 1.979	+16.776
Treasury Deposits with Federal Reserve Banks	4.562	- .712	- .592
Currency in Circulation	263.789	+ 1.363	+17.141
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	227.715	- 1.558	- 6.952
Member Bank Reserves:	5/30/90		
Total Reserves Held	58.080	- 1.089	+ 1.246
Excess (Deficiency)	1.014	+ .083	- .144
Net Free Reserves	.389	- 239	- .268

		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (5/21/90)	807.1	+ 3.9	+ 3.4
M2 (5/21/90)	3,266.1	+ 2.7	+ 5.9
M3 (5/21/90)	4,062.9	+ 0.6	+ 2.5
Domestic Nonfinancial Debt (4th Q'89)	9,790.0	+ 2.1	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/1/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.67%	7.60%	7.48%
* Federal Agencies	8.20	8.30	8.35
* Municipal Notes–High Grade (34% Taxable Equivalent)	9.09	9.29	9.33
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.21	8.29	8.38

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.10%	Jul.	8.05%
15- 29 days	8.10	Aug.	8.01
30- 59 days	8.13	Sep.	7.95
60- 89 days	8.13	Oct.	7.91
90-179 days	8.12	Nov.	7.90
180-239 days	8.00	Dec.	7.85
240-270 days	8.00		

‡ Industrial Paper–Prime			
30- 89 days	8.13%	†Federal Funds	
90-120 days	8.07	Effective Rate	8.31%

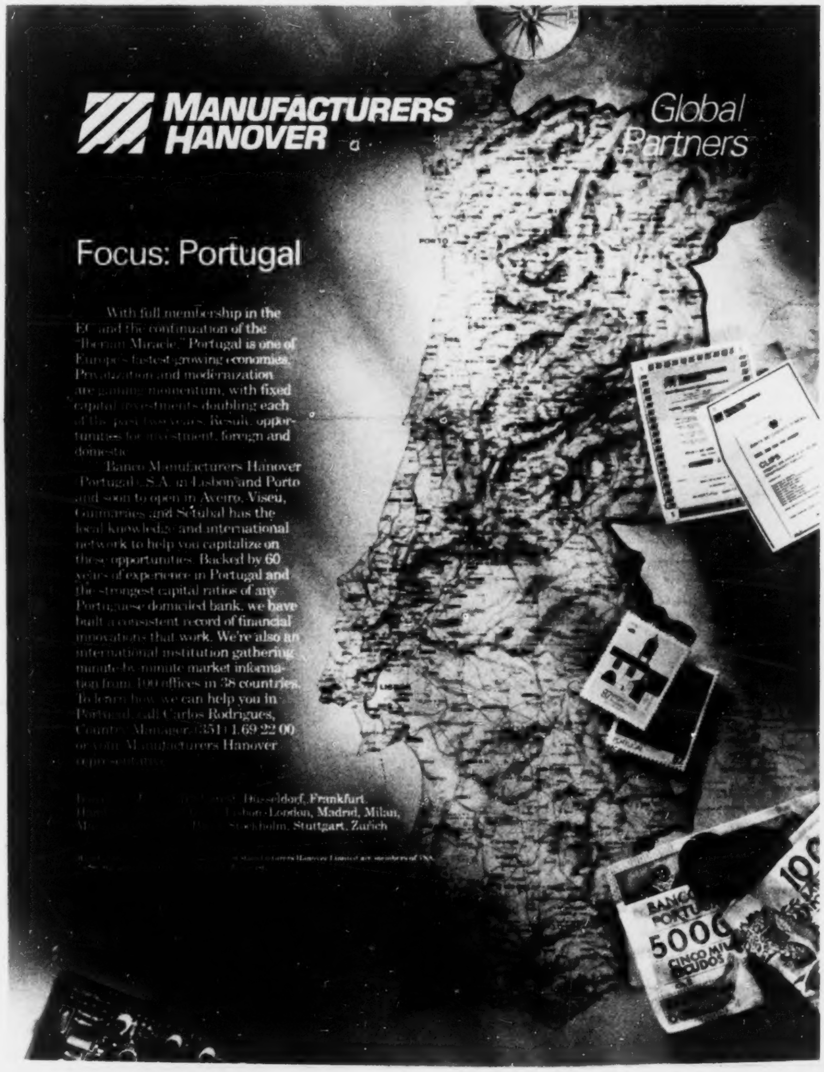
‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period			Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st	Q'90	$ 5,431 r	$ 5,340	$ 5,113
Gross National Product (1982 Dollars)*	1st	Q'90	$ 4,188 r	$ 4,174	$ 4,107
Percent Change, Annual Rate	1st	Q'90	1.3 r	1.1	3.7
Change in Consumer Prices*	Apr	'90	2.4 %	6.0%	8.4%
Change in MH Cost of Living Index*	Apr	'90	1.2 %	7.2%	6.0%
Change in Producer Prices*	Apr	'90	- 3.6 %	- 2.4%	7.2%
Civilian Employment (Thousands of Persons) †	May	'90n	118,350	118,116	117,132
Unemployment as % of Civilian Labor Force †	May	'90n	5.3%	5.4%	5.2%
Personal Income*	Apr	'90n	$ 4,688	$ 4,674r	$ 4,387
Leading Indicators Composite Index (1967=100) †	Apr	'90n	144.9	145.2	145.8
Industrial Production Index (1977=100) †	Apr	'90	108.7	109.1	108.6
Net Change in Consumer Installment Credit †	Mar	'90	$ 2.62	$ 0.06	$ 5.60
U.S. Merchandise Trade Balance †	Mar	'90	- $ 8.45	- $ 6.10	-$ 8.92
Plant and Equipment Expenditures*	2nd	Q'90	$ 509.1(a)	$ 502.7(a)	$ 470.9
Private Housing Starts (Thousands of Units)*	Apr	'90	1,245	1,321	1,341
New Construction Expenditures*	Apr	'90n	$ 432.4	$ 435.6r	$ 411.9
Total Business Inventories †	Mar	'90	$ 794.0	$ 794.0	$ 767.3
Total Business Sales †	Mar	'90	$ 539.1	$ 535.9	$ 512.8

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.



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Financial Digest

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MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 13

Monday, June 18, 1990

Analysis of Business Trends Plus Selected Financial Indicators

Monetary Ease?

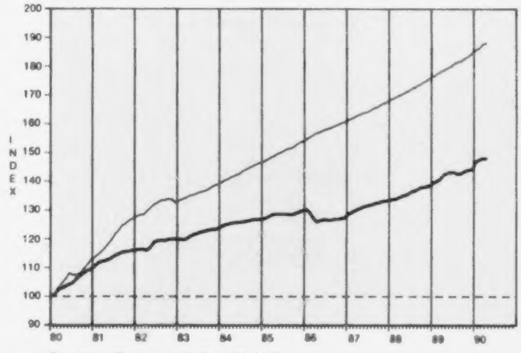
What a difference a month, or two, can make. Whereas just a few short weeks ago Wall Street was recoiling at the prospect of economic vigor and a tightening of monetary policy, the financial markets now find themselves anticipating the opposite—business lethargy and a loosening of the monetary reins. Within the past few weeks, the endless stream of economic statistics has taken on a decidedly downbeat tone, ranging from a virtual cessation of private sector jobs growth, to a flattening of construction activity and real estate values, to an easing of retail sales, factory orders and industry operating rates. And while a continuation of such negative news should eventually prompt a turn toward monetary ease, no one knows precisely when. For hard-pressed homebuilders and laid-off factory workers, the bad news is that the Federal Reserve has repeatedly stated that a loosening of the credit reins must await more convincing evidence of a subsiding inflation threat. The good news is that the wait may be short.

The signature of the Alan Greenspan-led Fed has been to alter policy modestly, and at well-measured intervals. Although this behavior has often frustrated many of the best-laid forecasts, this has been a small price to pay for keeping the business expansion on track. Earlier this year, the Fed ignored the frenetic urgings of the so-called "market watchers" to tighten monetary policy, correctly interpreting a food-, fuel- and clothing-led bulge in consumer prices as an aberration, rather than the onset of a sustained trend. In the interest of symmetry, if not conviction, the Fed now finds itself reluctant to be stampeded in the opposite direction, namely, into easing. Notwithstanding the multiplying signs that the cushion between slow growth and no growth is being increasingly squeezed, the Fed is sitting tight, still worried about the prevailing rate of inflation.

Manufacturers Hanover Economics Department 17/270

Nowhere are the multiplying signs of malaise more visible than in the closely-watched jobs numbers. During the three-month, March-May period, private sector payroll employment actually fell by 105,000 persons. Only the hiring of thousands of temporary Census Department workers kept total payroll employment in the plus column. This marked the first time since the end of the 1981-82 recession that private payroll employment has declined during any three-month period; it stands in stark contrast with the 500,000 private sector jobs created during the same 90-day period last year. As has been the case for months now, the economy continues to bleed goods-producing jobs. What's new is that the growth of private sector, service-producing jobs—an employment mainstay for years—has slowed decidedly. These jobs increased by an average of less than 50,000 persons monthly over the past three months, less than a third of the average monthly rate of rise posted during the March-May 1989 period. Not surprisingly, diminished jobs growth inevitably extracts a toll elsewhere, one good reason for the pronounced slide in retail sales over the past three months and, according to some surveys, the recent erosion of consumer confidence.

CONSUMER PRICE INDEX: GOODS (THICK) VS. SERVICES (THIN)
(JANUARY 1980 = 100)



Source: Bureau of Labor Statistics

Inflation's Split Personality

Notwithstanding these developments, an air of disbelief still permeates the Federal Reserve and the financial markets that the 91-month old business expansion is in danger of expiring, especially in an environment of vigorous global economic growth and an absence of top-heavy inventories. For these reasons, the Fed continues to insist publicly that the historical preconditions for recession do not exist, that the inflation fight remains top priority and that it is disinclined to ease monetary policy. Indeed, the

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central bank was jolted by the better than eight percent annualized increase in consumer prices in the first quarter of this year. Since that time, the so-called "hawks" on the policy-setting Federal Open Market Committee have held sway, warning of the dangers of a premature loosening of credit.

However, this argument is becoming increasingly costly, largely ignoring the transformation of the inflation threat in recent months. As the economy has weakened, price pressures have taken on a split personality—virtually tamed in the goods-producing industries, where tight money bites hard, but active in the service industries, where it doesn't. For this reason, the rise in industrial raw materials' prices has been checked, unit labor costs in manufacturing are falling, oil prices are slumping and, notwithstanding a modest bump-up in May, producer prices for finished and intermediate goods—not to mention crude materials at the initial stages of production—have either been moving sideways, or dropping, since January. What is more, fewer than one half of the 300 firms surveyed by the National Association of Purchasing Management in May reported seeing higher prices; two years earlier, better than 80 percent did.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	**Latest Week**	**Change Since**	
		Week Ago	**Year Ago**
Nationwide (5/30/90)	215,302	- 291	- 127
New York City (6/6/90)	40,145	+ 482	- 3,178
Commercial Paper (6/6/90)	548,567	- 1,114	+ 44,025

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	**Latest Week**	**Change Since**	
		Week Ago	**Year Ago**
Nationwide (5/30/90)	323,021	- 834	+ 4,940
New York City (6/6/90)	58,327	- 161	- 1,419

Total Loans and Leases Gross Adjusted

	Latest Week	**Change Since**	
		Week Ago	**Year Ago**
Nationwide (5/30/90)	1,009,759	+ 1,027	+ 45,851
New York City (6/6/90)	183,548	+ 1,621	+ 2,018

Financial Markets

	Friday 6/15/90	**Change Since**	
		Week Ago	**Year Ago**
U.S. Governments, Closing Yields:			
90-Day Bills†	7.93%	- .01	- .47
180-Day Bills†	8.02	+ .01	- .39
Longest Bills†	8.04	- .03	- .51
Recent Issues:			
8½s 5/31/92	8.32	-0-	
8½s 3/30/94	8.44	+ .01	
8⅞s 5/15/00	8.45	-0-	
8¾s 5/15/20	8.44	+ .02	
Municipals:			
Bond Buyer—20 Bond Index* (6/14/90)	7.20%	+ .01	+ .32
Blue List Total ($ Million)	$1,402	+ $ 20	+$ 69
30-Day Visible Supply ($ Million)	$1,175	- $207	- $ 933
Total	$2,577	- $187	- $ 864
Corporates:			
Moody's Aa Composite (6/14/90)	9.43	- .05	+ .20
30-Day Visible Supply ($ Million)	$1,100	- $430	- $2,363
Stocks:			
Dow-Jones Averages:			
Industrials	2,935.90	+ 73.52	+ 449.52
Transportation	1,193.26	- 8.02	+ 52.74
Utilities	211.71	- 0.75	+ 5.98
65 Stocks	1,056.65	+ 11.14	+ 108.07
N.Y.S.E. Composite Index	197.85	+ 1.80	+ 18.26
N.Y.S.E. Avg. Daily Vol. for Week (000's)	150,816	+ 8,027	- 32,302

*34% Taxable equivalent 10.91%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	**Friday 6/15/90**	**Week Ago**
Overnight	8.19%	8.19%
1 month	8.19	8.13
3 month	8.25	8.19
6 month	8.25	8.25
1 year	8.38	8.38

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/15/90)	**Currency Per U.S. $**	**Week Ago**
Belgium	34.87	34.84
Canada	1.1721	1.1738
France	5.7095	5.7065
Germany	1.6980	1.6945
Italy	1245.50	1245.00
Japan	154.50	153.40
Mexico	2811.40	2805.80
Netherlands	1.9105	1.9060
South Korea	707.65	706.16
Switzerland	1.4425	1.4495
Taiwan	27.10	27.03
U.K.*	1,7027	1.6825

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (6/15/90) (Adjusted for Inflation)	**Change Since Week Ago**	**2/27/85**
	+1.1%	-5.5%

On the other hand, the run-up in services prices continues to impede progress in dampening consumer inflation, much to the concern of those at the Fed who continue to skew policy toward restraint. As shown in the chart, consumer prices are being driven higher mostly by services, not by goods prices, and the divergence between the two is widening. Over the past year, consumer prices in total have risen by 4.4 percent and show few signs of a decided slowing. But to delay monetary ease until such time as consumer price inflation slows by a percentage point or two threatens to hobble the goods industries even further, without the prospect of correspondingly large inflation benefits.

Lower Interest Rates Ahead

For unless tight money is suddenly able to cap college tuition hikes, doctors' fees or the rapid escalation of dry cleaning bills, services inflation will continue to propel consumer prices higher. This suggests that the Fed has a choice to make, and soon: Either blink prior to a noticeable tapering of consumer price inflation, no matter how unpalatable, or run the risk of unintentionally flattening the rest of the economy. Since nobody favors the latter, look for a quick wink, and lower short-term interest rates. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	6/13/90	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	237.701	+ 2.075	+ 5.410
Loans to Depository Inst.	1.537	+ .493	- .718
Float	.558	+ .280	- .708
Total Reserve Bank Credit	280.142	+ 3.152	+20.235
Treasury Deposits with Federal Reserve Banks	4.574	- .611	- .823
Currency in Circulation	265.901	+ .581	+17.621
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	231.712	+ 3.751	- .459
Member Bank Reserves:	6/13/90		
Total Reserves Held	59.562	+ 1.544	+ .775
Excess (Deficiency)	.348	- .667	- .549
Net Borrowed Reserves	.384	+ .774	+ .812
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (6/4/90)	808.2	+ 1.4	+ 3.9
M2 (6/4/90)	3,263.9	+ 0.9	+ 5.8
M3 (6/4/90)	4,057.3	- 0.7	+ 2.3
Domestic Nonfinancial Debt (4th Q'89)	9,790.0	+ 2.1	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/15/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.70%	7.63%	7.49%
* Federal Agencies	8.20	8.30	8.35
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.71	8.91	9.09
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.20	8.28	8.37

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.18%	Jul.	8.10%
15- 29 days	8.13	Aug.	8.06
30- 59 days	8.06	Sep.	8.00
60- 89 days	8.00	Oct.	7.97
90-179 days	7.90	Nov.	7.95
180-239 days	7.50	Dec.	7.88
240-270 days	7.50		

‡ Industrial Paper–Prime			
30- 89 days	8.15%	†Federal Funds	
90-120 days	8.15	Effective Rate	8.25%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'90	$ 5,431	$ 5,340	$ 5,113
Gross National Product (1982 Dollars)*	1st Q'90	$ 4,188	$ 4,174	$ 4,107
Percent Change, Annual Rate	1st Q'90	1.3	1.1	3.7
Change in Consumer Prices*	May '90n	2.4 %	2.4%	4.8%
Change in MH Cost of Living Index*	May '90n	2.4 %	1.2%	7.2%
Change in Producer Prices*	May '90n	+ 3.6 %	- 3.6%	+ 8.4%
Civilian Employment (Thousands of Persons) †	May '90	118,350	118,116	117,132
Unemployment as % of Civilian Labor Force †	May '90	5.3%	5.4%	5.2%
Personal Income*	Apr '90	$ 4,688	$ 4,674	$ 4,387
Leading Indicators Composite Index (1967=100) †	Apr '90	144.9	145.2	145.8
Industrial Production Index (1977=100) †	May '90n	109.7	109.0r	108.3
Net Change in Consumer Installment Credit †	Apr '90n	$ 0.58	$ 2.41r	$ 3.33
U.S. Merchandise Trade Balance †	Apr '90n	- $ 6.940	- $ 8.362	-$ 7.646
Plant and Equipment Expenditures*	3rd Q'90n	$ 511.6(a)	$ 506.8(a)r	$ 484.9
Private Housing Starts (Thousands of Units)*	Apr '90	1,245	1,321	1,341
New Construction Expenditures*	Apr '90	$ 432.4	$ 435.6	$ 411.9
Total Business Inventories †	Apr '90n	$ 793.5	$ 793.7r	$ 772.9r
Total Business Sales †	Apr '90n	$ 533.0	$ 539.0r	$ 523.5r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 14

Monday, July 2, 1990

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

An Economic Revolution South of the Border

Although news headlines this year have been focusing on the dramatic events going on in Eastern Europe, economic changes just as revolutionary are taking place south of our own border. Since assuming office eighteen months ago, Mexico's president, Carlos Salinas de Gortari, has launched his country on an economic modernization and liberalization drive that is turning around decades of state planning, control and protectionism.

He has slashed public spending, dismantled trade barriers, put hundreds of state-owned enterprises—from the national airlines to the telephone company—up for sale and liberalized foreign investment regulations. He has also vigorously enforced a strict anti-inflation pact between the government, businesses and labor unions, which has limited wage and price increases and controlled the exchange rate between the peso and the dollar.

The government's tough economic policies are starting to bear fruit (table). The inflation rate has plummeted from almost 160 percent in 1987 to less than 20 percent last year. At the same time, the economy expanded by almost three percent, marking the first year since 1985 that the rate of economic expansion has exceeded the rate of population growth. Even more impressive has been the commitment of the government to put its own finances in order, a fact that bodes well for the long-term success of Mexico's economic policies. The combination of tax reform and spending cuts brought the public sector deficit from a whopping 16 percent of GDP in 1987 to less than six percent last year. In fact, excluding interest payments, the government's financial balance is actually in surplus, equivalent to some seven percent of the economy.

One unfortunate by-product of the government's economic program has been a sharp deterioration in the country's trade and current accounts. The combination of the dismantling of import barriers and the pickup in economic growth has caused Mexico to post a trade deficit of $644.8 million last year, the first red-ink figure since 1981. As a result, the current account deficit soared to $5.4 billion last year from less than $3 billion in 1988.

MEXICO:
SELECTED ECONOMIC STATISTICS

	Year		
	1987	1988	1989
Real GDP Growth (%)	1.4	1.1	2.9
Inflation Rate (Year End; %)	159.2	51.7	19.7
Public Sector Deficit as % GDP (%)	16.1	12.2	5.9
Exports (US $ billions)	20.66	20.66	22.76
Imports (US $ billions)	12.22	18.91	23.41
Trade Balance (US $ billions)	8.44	1.75	- 0.65
Current Account Balance (US $ billions)	4.0	- 2.9	- 5.4

Sources: IMF; Mexican Finance Ministry

A marked deterioration in trade performance, however, is a common result when a country undertakes the types of reforms that Mexico is currently initiating. Although Spain and Portugal have prospered since joining the European Community (E.C.) in 1986, both countries have seen their trade deficits soar as E.C. regulations forced them to dismantle import barriers. Perhaps the most significant sign that Mexico is serious about reforming its economy is President Salinas's decision to change the country's constitution in order to reprivatize the banking system that was nationalized in 1982 and to get permission from the Mexican Congress to seek a free-trade agreement with the United States.

Why Now?

Mexico's willingness to form closer ties with the United States marks a dramatic shift in the country's economic and political thinking. Because of the difference in economic development between the United States and Mexico and because of Mexico's traditional mistrust of the "Colossus to the North", preserving its sovereignty and independence has been the cornerstone of Mexican foreign policy. So why the change now? Why is Mexico suddenly opening its arms to foreign investment in general and looking for better relations with the United States in particular?

In a word, Mexico needs money. It needs capital to sustain economic growth in order not to risk losing the gains that President Salinas has already achieved. It needs funds to invest in

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17/270

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health, education, infrastructure and other social areas that have been badly neglected in recent years, if his reforms are to maintain the support of the Mexican people. Also, because Mexico must now finance a growing current account deficit, the government must look to private investment to sustain economic activity, since previous sources of funds have virtually dried up.

In order to attract such investment, however, the government must foster confidence in its economic policies, while making Mexico an attractive place to invest. Indeed, the sudden rise of investment opportunities in Eastern Europe has made it all the more urgent for Mexico to act quickly. At the same time, with Western Europe preoccupied with the 1992 single market and developments in Eastern Europe, and Japan involved in the Pacific rim, President Salinas has come to realize that Mexico's future depends upon closer ties with the United States, starting with a free-trade agreement between the two countries.

For one thing, a free-trade agreement with the United States would be, in effect, a U.S. endorsement of Mexico's economic program, helping to build investor confidence in Mexico. For another, it would boost Mexico's manufac-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/13/90)	214,011	- 1,233	- 3,540
New York City (6/20/90)	39,479	+ 171	- 3,097
Commercial Paper (6/20/90)	550,368	+ 232	+ 46,424

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loan

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/13/90)	322,751	- 431	+ 6,283
New York City (6/20/90)	57,934	- 71	+ 421

Total Loans and Leases Gross Adju

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/13/90)	1,013,695	+ 999	+ 50,827
New York City (6/20/90)	182,683	- 292	+ 2,524

Financial Markets

	Friday 6/29/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.99 %	- .02	- .24
180-Day Bills†	8.00	- .05	- .12
Longest Bills†	8.03	- .06	- .07
Recent Issues:			
8⅛s 6/30/92 (When Issued)	8.24	NA	
8½s 6/30/94 (When Issued)	8.35	NA	
8⅞s 5/15/00	8.41	- .09	
8¾s 5/15/20	8.40	- .08	
Municipals:			
Bond Buyer—20 Bond Index* (6/28/90)	7.27 %	- .01	+ .25
Blue List Total ($ Million)	$1,426	- $ 2	+$ 51
30-Day Visible Supply ($ Million)	$1,829	- $466	- $ 66
Total	$3,255	- $468	- $ 15
Corporates:			
Moody's Aa Composite (6/28/90)	9.50	- .01	+ .29
30-Day Visible Supply ($ Million)	$1,220	+ $200	- $2,788
Stocks:			
Dow-Jones Averages:			
Industrials	2,880.69	+ 23.51	+440.63
Transportation	1,142.70	- 21.53	- 6.07
Utilities	209.95	+ 1.76	+ .25
65 Stocks	1,030.97	+ .19	+ 87.11
N.Y.S.E. Composite Index	195.48	+ 1.24	+ 17.58
N.Y.S.E. Avg. Daily Vol. for Week (000's)	140,756	- 2,636	- 22,398

*34% Taxable equivalent 11.02%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/29/90	Week Ago
Overnight	8.38%	8.19%
1 month	8.19	8.19
3 month	8.25	8.25
6 month	8.25	8.31
1 year	8.38	8.44

FOREIGN EXCHANGE SPOT RATES New York Opening (6/29/90)	Currency Per U.S. $	Week Ago
Belgium	34.24	34.46
Canada	1.1681	1.1799
France	5.5955	5.6385
Germany	1.6670	1.6798
Italy	1223.00	1230.70
Japan	152.27	154.80
Mexico	2822.60	2817.00
Netherlands	1.8770	1.8895
South Korea	708.05	708.05
Switzerland	1.4130	1.4110
Taiwan	26.90	27.10
U.K.*	1.7445	1.7285

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (6/29/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	0.0 %	-4.7 %

tured exports, the engine of the country's economic growth over the past few years. Finally, by ensuring a huge and steady market for products made in Mexico, it would help to further entice foreign investors to come to Mexico.

The U.S. Will Benefit Also

A free-trade agreement with Mexico, which has the support of President Bush and most big businesses in this country, would also benefit the United States. A potential market of 100 million consumers by the end of the decade will produce new export opportunities for American companies. Also, with declining oil reserves and rising production costs here, Mexico can offer a secure source of oil and petroleum products.

Most of the resistance to free trade with Mexico in this country appears to be coming from organized labor. Unions are apparently worried that low wages in Mexico will drive down wages here and prompt U.S. companies to set up shop south of the border, in effect sending thousands of U.S. jobs abroad. On the other hand, sustained growth and job creation opportunities in Mexico can't help but foster economic progress on both sides of the border. Indeed, the United States can only benefit from a more prosperous and economically stable Mexico. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/27/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	236.022	+ .594	- 2.863
Loans to Depository Inst.	.621	+ .112	- .371
Float	.572	+ .047	- .992
Total Reserve Bank Credit	277.919	+ 1.091	+ 6.821
Treasury Deposits with Federal Reserve Banks	5.364	+ .361	- 12.979
Currency in Circulation	265.468	- .348	+18.170
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	227.365	- 2.776	- 5.754
Member Bank Reserves:	**6/27/90**		
Total Reserves Held	59.508	- .080	+ 1.667
Excess (Deficiency)	1.072	+ .612	+ .171
Net Free Reserves	.689	+ .961	+ .466
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**‡ % Change Since Year Ago**
M1 (6/18/90)	807.6	+ 1.2	+ 4.3
M2 (6/18/90)	3,269.4	0.0	+ 5.5
M3 (6/18/90)	4,055.9	- 1.0	+ 2.0
Domestic Nonfinancial Debt (1st Q'90)	9,987.4	+ 7.5	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/29/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.76%	7.62%	7.51%
* Federal Agencies	8.15	8.20	8.30
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.52	8.71	8.71
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.30	8.30	8.35

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.25%	Jul.	8.15%
15- 29 days	8.20	Aug.	8.12
30- 59 days	8.16	Sep.	8.06
60- 89 days	8.10	Oct.	8.03
90-179 days	8.00	Nov.	7.97
180-239 days	7.88	Dec.	7.93
240-270 days	7.88		

‡ Industrial Paper–Prime			
30- 89 days	8.22%	†Federal Funds	
90-120 days	8.15	Effective Rate	7.50%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'90	$ 5,433 r	$ 5,340	$ 5,113
Gross National Product (1982 Dollars)*	1st Q'90	$ 4,193 r	$ 4,174	$ 4,107
Percent Change, Annual Rate	1st Q'90	1.9 r	1.1	3.7
Change in Consumer Prices*	May '90	2.4 %	2.4%	4.8%
Change in MH Cost of Living Index*	May '90	2.4 %	1.2%	7.2%
Change in Producer Prices*	May '90	3.6 %	- 3.6%	8.4%
Civilian Employment (Thousands of Persons) †	May '90	118,350	118,116	117,132
Unemployment as % of Civilian Labor Force †	May '90	5.3%	5.4%	5.2%
Personal Income*	May '90n	$ 4,701	$ 4,687r	$ 4,396
Leading Indicators Composite Index (1967=100) †	May '90n	146.2	145.1r	144.2
Industrial Production Index (1977=100) †	May '90	109.7	109.0	108.3
Net Change in Consumer Installment Credit †	Apr '90	$ 0.58	$ 2.41	$ 3.33
U.S. Merchandise Trade Balance †	Apr '90	- $ 6.94	- $ 8.36	- $ 7.65
Plant and Equipment Expenditures*	3rd Q'90	$ 511.6(a)	$ 506.8(a)	$ 484.9
Private Housing Starts (Thousands of Units)*	May '90n	1,207	1,224r	1,341
New Construction Expenditures*	Apr '90	$ 432.4	$ 435.6	$ 411.9
Total Business Inventories †	Apr '90	$ 794.5	$ 793.7	$ 772.9
Total Business Sales †	Apr '90	$ 533.0	$ 539.0	$ 523.5

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 15

Monday, July 16, 1990

Analysis of Business Trends Plus Selected Financial Indicators

Monetary Ease Delayed

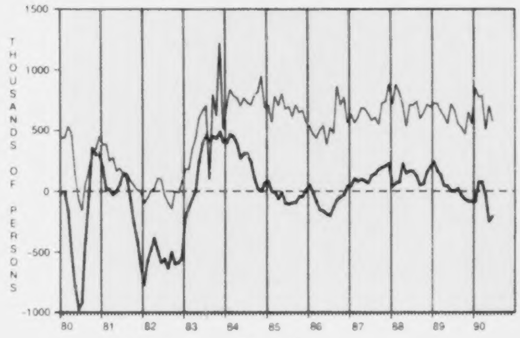
Summer doldrums aptly describe not only weather patterns throughout large swaths of the Northern Hemisphere at this time of year, but increasingly the pace of business as well. With jobs growth slowing and widely-publicized layoffs in a number of industries mounting, consumer confidence and spending are beginning to erode, commercial and residential construction is poised to plumb new depths, the manufacturing sector is posting uneven gains at best, and state and local governments are in the process of substantial belt tightening. Yet, while the risks of an unanticipated business downturn have increased, the Federal Reserve is hanging tough, refusing to be goaded into even a modest loosening of the monetary reins. The central bank's policy-setting Federal Open Market Committee undoubtedly broke little new ground at its early-July meeting, reaffirming that the overarching objective of the Fed is to reduce inflation pressures further, barring conclusive evidence of a pronounced unraveling of the economy.

It had been hoped that the June employment numbers would provide such evidence. For months, jobs creation had been slowing to a crawl, not only in the hard-pressed goods-producing industries but also in the formerly buoyant services industries as well. However, as is often the case with these over-analyzed economic statistics, the June jobs report settled little, containing as it did a sufficient number of ambiguities to justify further fence straddling by the Fed, perhaps biasing policy toward ease, but imperceptibly so. According to the Labor Department, nonfarm payroll employment increased by a paltry 40,000 persons in June. With one exception, this was the smallest monthly increase in payroll employment in four years. Even after taking into account the dismissal of 55,000 temporary Census Department employees, jobs growth in June was still indisputably sluggish, running well below the pace of a year earlier.

Manufacturers Hanover Economics Department 17/270

Nor did the hemorrhage of jobs in the goods-producing industries abate. Another 43,000 jobs disappeared in June, the bulk of which were factory jobs, bringing the total employment loss in these industries to 209,000 during the second quarter. This marked the sharpest quarterly loss since the depths of the 1981-82 recession (see chart). And, although the factory workweek was unchanged at a solid 41 hours, and recent increases in factory orders and shipments have been cited as harbingers of a manufacturing rebound, the continuing attrition of manufacturing employment tends to belie these claims. So, too, does the Labor Department diffusion index, which measures the proportion of industries reporting jobs gains. In June, only 42 percent did so, the smallest proportion this year.

NONFARM PAYROLL EMPLOYMENT:
GOODS-PRODUCING (THICK) VS. SERVICE-PRODUCING (THIN)
(3-MO. ABSOLUTE CHANGE)



Source: Bureau of Labor Statistics

A Listless Economy

Taken by themselves, the June employment data largely lent support to those both inside and outside the central bank who have been urging a turn toward monetary ease to counter the economy's listlessness. However, two additional pieces of the employment report did not. For one thing, the initially-reported increase in payroll employment in May was revised substantially higher, primarily due to a larger-than-first reported surge in temporary Census Department workers. For another, the unemployment rate in June actually dipped a bit, to 5.2 percent, from 5.3 percent in May, a development which reinforced the view that while the economy may be softening and jobs creation withering, labor market conditions remain unusually tight. This seeming paradox traces to a decided slowing of the growth of the labor force, due to both demographic trends—

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namely, a shrinking pool of younger, entry-level workers and a smaller number of women entering the work force—and an unusual dip in the labor force participation rate—those actively looking for work—among middle-aged adult men.

In the absence of a clear-cut reading of labor market conditions, the Fed believes that its hands are tied, fearing that wage pressures might materialize at any point. However, the emphasis has to be on the threat, rather than the reality of an inflation-fueling wage spiral. Average hourly earnings growth is still locked into a tight, 3½ to four percent range, exactly where it was when the Fed eased monetary policy toward the end of last year. What is more, earnings growth in manufacturing is even slower than in the economy as a whole, with little threat of acceleration as long as jobs keep vanishing. This should guarantee the stability of unit labor costs, a key determinant of longer-run inflation rates.

Bond Market Frustration

Of course, many of these same arguments, and such others as the notable absence of so-called "pipeline" inflation and the leveling of com-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/27/90)	212,448	- 818	- 4,387
New York City (7/4/90)	39,934	+ 1,294	- 3,803
Commercial Paper (7/4/90)	541,004	- 1,584	+ 38,953

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/27/90)	321,997	- 1,319	+ 7,902
New York City (7/4/90)	57,403	+ 577	+ 1,189

Total Loans and Leases Gross Adjuste

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/27/90)	1,011,808	- 4,367	+ 47,813
New York City (7/4/90)	180,398	- 116	+ 1,794

Financial Markets

	Friday 7/13/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.81%	- .17	- .24
180-Day Bills†	7.89	- .19	- .13
Longest Bills†	7.89	- .23	+ .06
Recent Issues:			
8⅜s 6/30/92	8.11	- .22	
8½s 6/30/94	8.29	- .14	
8⅞s 5/15/00	8.44	- .06	
8¾s 5/15/20	8.45	- .06	
Municipals:			
Bond Buyer—20 Bond Index* (7/12/90)	7.21%	- .03	+ .29
Blue List Total ($ Million)	$ 984	- $ 24	- $ 130
30-Day Visible Supply ($ Million)	$2,284	- $353	- $ 627
Total	$3,268	- $377	- $ 757
Corporates:			
Moody's Aa Composite (7/12/90)	9.52	+ .07	+ .39
30-Day Visible Supply ($ Million)	$ 970	- $250	- $1,780
Stocks:			
Dow-Jones Averages:			
Industrials	2,980.20	+ 75.25	+425.38
Transportation	1,187.59	+ 46.90	- 22.95
Utilities	206.18	+ .07	- 10.68
65 Stocks	1,059.51	+ 27.23	+ 71.01
N.Y.S.E. Composite Index	200.33	+ 4.55	+ 15.28
N.Y.S.E. Avg. Daily Vol. for Week (000's)	171,955	+ 46,880	+10,721

*34% Taxable equivalent 10.92%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/13/90	Week Ago
Overnight	8.19%	8.25%
1 month	8.13	8.25
3 month	8.13	8.25
6 month	8.19	8.31
1 year	8.31	8.38

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/13/90)	Currency Per U.S. $	Week Ago
Belgium	33.84	33.97
Canada	1.1574	1.1629
France	5.5140	5.5450
Germany	1.6430	1.6520
Italy	1203.50	1212.00
Japan	147.45	150.95
Mexico	2833.80	2828.20
Netherlands	1.8523	1.8603
South Korea	710.43	707.87
Switzerland	1.3940	1.3985
Taiwan	26.72	26.74
U.K.*	1.8080	1.7850

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR (7/13/90) (Adjusted for Inflation)	+0.1%	-4.4%

modities prices, could have been made for months now. But, while the economic environment seems to favor lower interest rates, and is outwardly friendly toward the bond markets, many participants have thrown in the towel, finding few reasons to hold bonds in today's economic vacuum. Not even an apparent shift in the Administration's stance on the possible need for new taxes, and with it the slightly enhanced prospect of achieving a meaningful Federal budget deficit reduction accord could cause more than a brief upward blip in bond prices.

Traders and investors have instead focused on the endless, and growing supply of new Treasury offerings, in part to satisfy the working capital needs of the Resolution Trust Corporation, and in part to finance the widening Federal deficit. The thrift institution bail-out has already cost some $25 billion since last summer, and some estimates of the fiscal 1990 Federal deficit are now ranging as high as $200 billion, threatening to lift Treasury borrowings to their highest level since the mid-1980s. Under these circumstances, it looks as if the dog days of summer have hit the financial markets, as well as the Northern Hemisphere. Relief, in both instances, may still be weeks away. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/11/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	240.857	+ 3.135	+ 6.865
Loans to Depository Inst.	.575	- .011	- .086
Float	.928	+ .037	- .235
Total Reserve Bank Credit	282.798	+ 3.169	+16.642
Treasury Deposits with Federal Reserve Banks	5.973	+ .393	- .335
Currency in Circulation	270.006	+ 2.264	+18.645
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	226.749	- .320	- 5.598
Member Bank Reserves:	7/11/90		
Total Reserves Held	60.324	+ .864	+ .564
Excess (Deficiency)	.841	- .176	- .149
Net Free Reserves	.442	- .192	+ .023

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (7/2/90)	818.2	+ 3.0	+ 4.8
M2 (7/2/90)	3,276.1	+ 0.5	+ 5.3
M3 (7/2/90)	4,058.0	- 0.3	+ 1.7
Domestic Nonfinancial Debt (1st Q'90)	9,987.4	+ 7.6	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/13/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.61%	7.54%	7.39%
* Federal Agencies	8.15	8.20	8.30
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.33	8:71	9.09
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.18	8.23	8.28

‡ Finance Company Paper–Prime	
5- 14 days	8.13%
15- 29 days	8.10
30- 59 days	8.05
60- 89 days	8.00
90-179 days	7.88
180-239 days	7.75
240-270 days	7.75

‡* Bankers' Acceptances	
Aug.	8.13%
Sep.	8.03
Oct.	7.98
Nov.	7.92
Dec.	7.87
Jan.	7.83

‡ Industrial Paper–Prime	
30- 89 days	8.13%
90-120 days	8.00

†Federal Funds Effective Rate 8.06%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'90	$ 5,433	$ 5,340	$ 5,113
Gross National Product (1982 Dollars)*	1st Q'90	$ 4,193	$ 4,174	$ 4,107
Percent Change, Annual Rate	1st Q'90	1.9	1.1	3.7
Change in Consumer Prices*	May '90	2.4 %	2.4%	4.8%
Change in MH Cost of Living Index*	May '90	2.4 %	1.2%	7.2%
Change in Producer Prices*	Jun '90n	2.4 %	3.6%	1.2%
Civilian Employment (Thousands of Persons) †	Jun '90n	118,389	118,350	117,542
Unemployment as % of Civilian Labor Force †	Jun '90n	5.2%	5.3%	5.3%
Personal Income*	May '90	$ 4,701	$ 4,687	$ 4,396
Leading Indicators Composite Index (1967=100) †	May '90	146.2	145.1	144.2
Industrial Production Index (1977=100) †	May '90	109.7	109.0	108.3
Net Change in Consumer Installment Credit †	May '90n	$ 3.91	$ 0.39r	$ 4.20
U.S. Merchandise Trade Balance †	Apr '90	- $ 6.94	- $ 8.36	- $ 7.65
Plant and Equipment Expenditures*	3rd Q'90	$ 511.6(a)	$ 506.8(a)	$ 484.9
Private Housing Starts (Thousands of Units)*	May '90	1,207	1,224	1,341
New Construction Expenditures*	May '90n	$ 445.6	$ 447.2r	$ 434.7r
Total Business Inventories †	Apr '90	$ 794.5	$ 793.7	$ 772.9
Total Business Sales †	Apr '90	$ 533.0	$ 539.0	$ 523.5

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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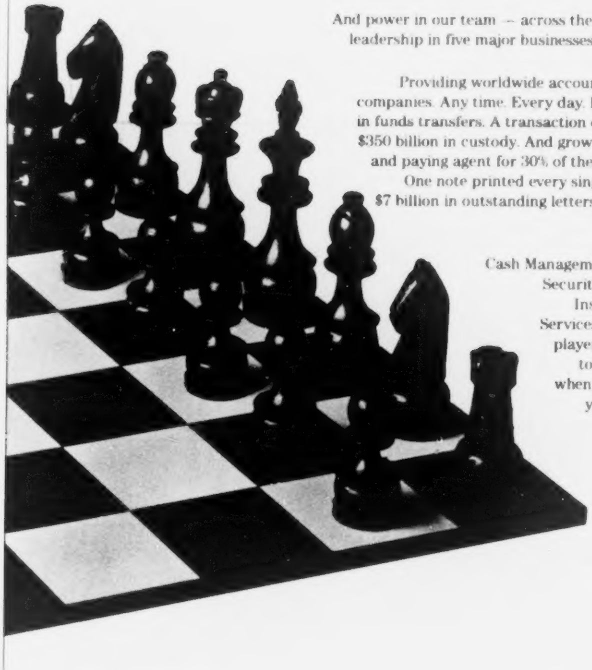

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MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 16

Monday, July 30, 1990

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

"High-Yielding" Currencies Take Center Stage

Despite the monumental economic and political changes occurring around the world this year, the foreign exchange markets have been relatively quiet, at least with respect to the U.S. dollar, the German mark and the Japanese yen. In fact, things have been so uneventful in the major markets this year that the topic of currency trends, usually one of the hottest issues at the yearly Group-of-Seven Summit meetings, never even came up in Houston this month. The market's stability, however, is not due to any policy actions by the leaders of the major industrial countries. Rather, it reflects a reluctance by market participants to either buy or sell the major currencies because of widespread confusion about interest rate policies in the United States, Germany and Japan, as well as uncertainty about the ramifications of current events in Eastern Europe and the Soviet Union.

The lack of movement in the major markets has caused traders to seek out the currencies of high interest rate countries in order to earn profits on the differentials relative to lower-rate countries. As a result, despite the severe economic problems in some of these countries—which is why their interest rates are so high to begin with—strong demand has caused the "high-yielding" currencies to appreciate sharply in recent weeks (see chart).

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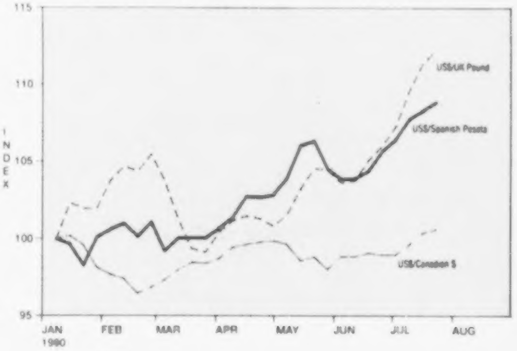
17/270

The currency that has benefitted the most from the markets' focus on the high-yielding currencies is the U.K. pound. Propelled by the country's 15 percent interest rates, the pound has soared above $1.81, its strongest level against the dollar in 18 months, despite the U.K.'s lofty inflation rate, hefty current account deficit and slow economic growth. Market expectations that the pound will soon join the exchange rate mechanism of the European Monetary System (EMS) has added fuel to the fire. This is because EMS membership confines a currency to specific trading ranges, thereby limiting the risk of owning such a currency if it suddenly undergoes hefty selling pressure.

Governments Face Policy Dilemmas

While a strengthening currency has been a welcome support to the U.K. government's inflation-fighting program, other countries have not been so pleased. Indeed, when a currency rises solely on the basis of favorable interest rate differentials, it can cause major headaches for a nation's economy. Because Australia is a commodity-based economy, movements of the Australian dollar generally follow commodity price movements. However, while commodity prices have been falling lately, and Australia continues to run a huge current account deficit and a big foreign debt, the Australian dollar is trading near a 15-month high against its U.S. counterpart. As a result, Australian farmers not only have to cope with lower world prices for their commodity exports, but they also receive fewer Australian dollars when they convert U.S. dollars into local currency.

SELECTED HIGH-YIELDING CURRENCIES
(JANUARY 5, 1990 = 100) <WEEKLY AVERAGES>



Source: MH

Lower export earnings are not the only problem that an unjustifiably strong currency can cause a country. Fueled solely by a record differential of almost six percentage points between Canadian and U.S. interest rates in Canada's favor, the Canadian dollar has climbed to a ten-year high of nearly US$0.87, as traders shrugged off Canada's economic problems and recent political upheavals. Although a sharply weakening economy is expected to force the Bank of Canada to ease monetary policy later this year, the central bank will have to be extremely cautious if it is to avoid a re-

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peat of what happened last February. At that time, signs of an economic slowdown prompted the Bank of Canada to implement a modest reduction in interest rates. Because lofty interest rates were its sole support, the Canadian dollar plunged, forcing the central bank to hike interest rates back up again to even higher levels than before, bringing the economy, it is widely feared, to the brink of recession.

Tensions Within The EMS

The market's fixation with high-yielding currencies is also producing strains within the EMS, causing monetary policy dilemmas for the member central banks. Strong demand for the high-yielding Italian lira and Spanish peseta has forced their central banks to intervene heavily in the foreign exchange markets in order to keep them within their permitted EMS trading ranges. In fact, to diminish the lira's attraction, the Bank of Italy cut its discount rate by a full percentage point in May, despite Italy's relatively high inflation rate. Although the lira is still brushing up against its upper EMS trading limits, the Bank of Italy's ability to cut interest rates further is limited by the Italian Treasury's hefty borrowing requirements this year.

The Bank of Spain is facing a similar dilemma. While it wants to maintain a tight monetary

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/11/90)	217,502	+ 434	- 1,432
New York City (7/18/90)	39,617	+ 439	- 3,335
Commercial Paper (7/18/90)	542,921	+ 4,013	+ 40,375

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/11/90)	321,980	- 964	+ 6,754
New York City (7/18/90)	57,708	+ 671	+ 369

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/11/90)	1,011,822	- 2,937	+ 43,314
New York City (7/18/90)	183,064	+ 4,258	+ 7,286

Financial Markets

	Friday 7/27/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.75%	- .02	- .36
180-Day Bills†	7.78	- .04	- .10
Longest Bills†	7.77	- .04	- .09
Recent Issues:			
8s 7/31/92 (When Issued)	7.98	NA	
8½s 6/30/94	8.18	- .04	
8⅞s 5/15/00	8.42	- .03	
8¾s 5/15/20	8.49	- .04	
Municipals:			
Bond Buyer—20 Bond Index* (7/26/90)	7.15%	- .02	+ .20
Blue List Total ($ Million)	$1,114	- $ 87	- $ 521
30-Day Visible Supply ($ Million)	$1,316	+ $ 27	- $1,578
Total	$2,430	- $ 60	- $2,099
Corporates:			
Moody's Aa Composite (7/26/90)	9.46	- .01	+ .38
30-Day Visible Supply ($ Million)	$ 250	- $520	- $3,820
Stocks:			
Dow-Jones Averages:			
Industrials	2,898.52	- 62.62	+263.28
Transportation	1,134.67	- 24.64	- 134.53
Utilities	203.35	+ 1.20	- 16.47
65 Stocks	1,027.28	- 17.91	+ 4.98
N.Y.S.E. Composite Index	193.32	- 4.33	+ 2.94
N.Y.S.E. Avg. Daily Vol. for Week (000's)	171,970	+ 5,014	- 7,819

*34% Taxable equivalent 10.83%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/27/90	Week Ago
Overnight	7.94%	7.94%
1 month	8.13	8.00
3 month	8.13	8.00
6 month	8.13	8.06
1 year	8.13	8.13

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/27/90)	Currency Per U.S. $	Week Ago
Belgium	33.37	33.84
Canada	1.1531	1.1533
France	5.4335	5.5085
Germany	1.6207	1.6425
Italy	1187.00	1202.70
Japan	150.70	148.95
Mexico	2845.00	2839.40
Netherlands	1.8268	1.8498
South Korea	707.26	707.26
Switzerland	1.3690	1.4065
Taiwan	26.80	26.85
U.K.*	1.8255	1.8160

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (7/27/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.5%	-3.3%

policy in order to fight inflation and cool import demand (Spain has the highest inflation rate and largest current account deficit in the EMS), the peseta's strength could force the central bank to cut interest rates in order to keep the currency within its allowable trading ranges.

The market's preoccupation with high-yielding currencies is also causing problems for EMS member countries with sound economic policies, good fundamentals and, consequently, relatively low interest rates. The weakness of the low-yielding guilder within the EMS forced the Dutch central bank to raise domestic money market interest rates earlier this month, although the Netherlands has the lowest inflation rate of any EMS member country.

While the French franc is trading at a 2½-year high against the Deutschemark and France's inflation rate should soon fall below Germany's for the first time since 1966, the government is unable to lower French interest rates because the franc is trading at its lowest permissible levels against the lira and the peseta. For the moment at least, market demand for the high-yielding currencies will continue to cause headaches for economic policymakers. But when these currencies fall—and they always do—it will be the traders who will feel the pain. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/25/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	283.135	+ .394	+11.773
Loans to Depository Inst.	1.000	+ .336	+ .325
Float	.820	+ .393	- .030
Total Reserve Bank Credit	278.757	- .561	+19.276
Treasury Deposits with Federal Reserve Banks	5.082	- .026	+ .057
Currency in Circulation	268.463	- 1.043	+19.566
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	226.398	- 2.208	- 10.714
Member Bank Reserves:	**7/25/90**		
Total Reserves Held	58.991	- 1.375	+ .441
Excess (Deficiency)	.837	- .064	- .198
Net Free Reserves	.303	- .199	- .141
		‡ % Change Since 3 Months Ago*	**‡ % Change Since Year Ago**
Monetary Aggregates †			
M1 (7/16/90)	807.9	+ 1.9	+ 4.4
M2 (7/16/90)	3,273.7	+ 0.4	+ 5.0
M3 (7/16/90)	4,051.6	- 1.0	+ 1.3
Domestic Nonfinancial Debt (1st Q'90)	9,987.4	+ 7.6	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/27/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.52%	7.39%	7.26%
* Federal Agencies	7.90	7.95	8.00
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.52	8.71	8.71
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.03	8.05	7.80

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	7.90%	Aug.	7.95%
15- 29 days	7.90	Sep.	7.86
30- 59 days	7.86	Oct.	7.82
60- 89 days	7.78	Nov.	7.78
90-179 days	7.68	Dec.	7.73
180-239 days	7.53	Jan.	7.69
240-270 days	7.53		

‡ Industrial Paper–Prime			
30- 89 days	7.93%	†Federal Funds	
90-120 days	7.85	Effective Rate	8.00%

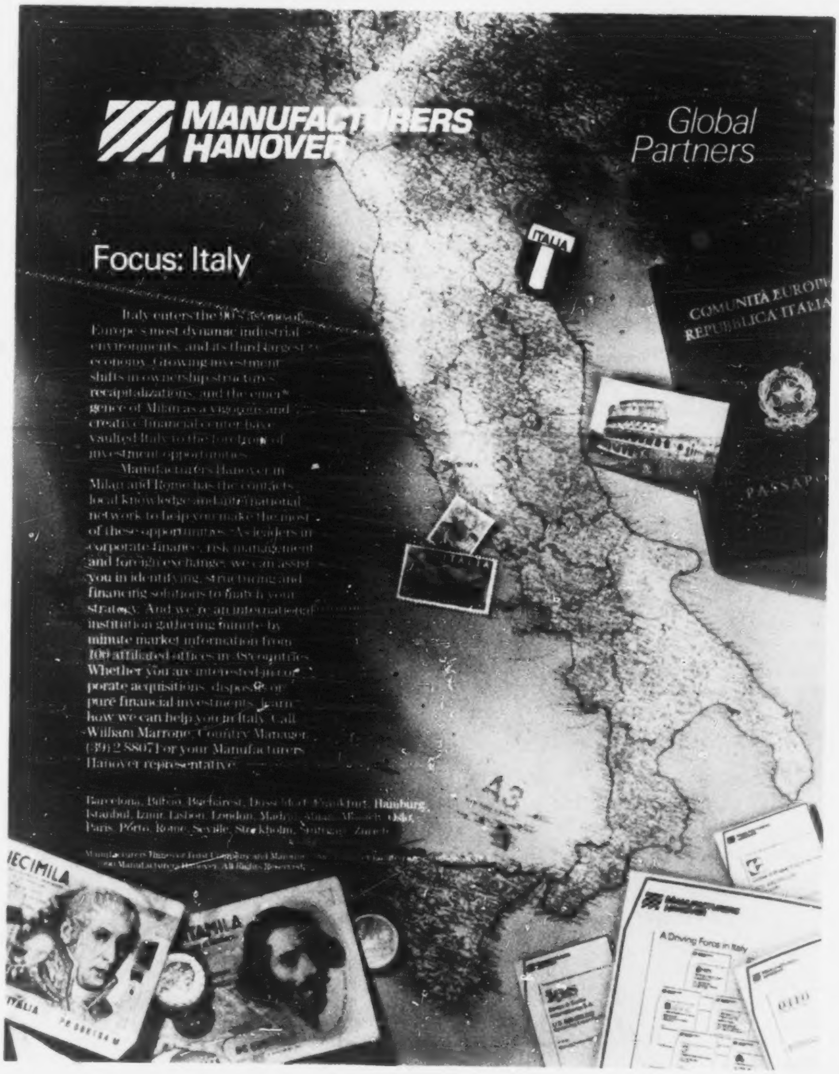
‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'90n	$ 5,452	$ 5,375	$ 5,174
Gross National Product (1982 Dollars)*	2nd Q'90n	$ 4,163	$ 4,151	$ 4,112
Percent Change, Annual Rate	2nd Q'90n	1.2	1.7	1.6
Change in Consumer Prices*	Jun '90n	6.0 %	2.4%	2.4%
Change in MH Cost of Living Index*	Jun '90n	6.0 %	2.4%	3.6%
Change in Producer Prices*	Jun '90	1.2 %	3.6%	3.6%
Civilian Employment (Thousands of Persons) †	Jun '90	118,389	118,350	117,542
Unemployment as % of Civilian Labor Force †	Jun '90	5.2%	5.3%	5.3%
Personal Income*	May '90	$ 4,701	$ 4,687	$ 4,396
Leading Indicators Composite Index (1967=100) †	May '90	146.2	145.1	144.2
Industrial Production Index (1977=100) †	Jun '90n	109.8	109.3r	108.4
Net Change in Consumer Installment Credit †	May '90	$ 3.91	$ 0.39	$ 4.20
U.S. Merchandise Trade Balance †	May '90n	- $ 7.73	- $ 7.31r	- $ 10.26
Plant and Equipment Expenditures*	3rd Q'90	$ 511.6(a)	$ 506.8(a)	$ 484.9
Private Housing Starts (Thousands of Units)*	Jun '90n	1,177	1,205r	1,414
New Construction Expenditures*	May '90	$ 445.6	$ 447.2	$ 434.7
Total Business Inventories †	May '90n	$ 799.4	$ 796.1r	$ 779.1r
Total Business Sales †	May '90n	$ 538.3	$ 533.6r	$ 523.5r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.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Financial Digest

MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 17

Monday, August 13, 1990

Analysis of
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Selected
Financial
Indicators

Another Oil Shock?

As if the economy and the financial markets didn't have enough to wrestle with, ranging from a marked slowing of the pace of business to an intractable rate of inflation to a seemingly incurable twelve-digit Federal budget deficit, recent tensions in the most prolific oil-producing regions of the Middle East threaten to compound these ills. With the price of crude petroleum leaping higher almost daily, fears have multiplied that the subsequent erosion of consumer and business confidence and spending could tilt an already enfeebled economy into recession, yet quicken the inflation rate, and enlarge the Federal deficit due to a waning of tax receipts and a hike in counter-cyclical spending.

However, notwithstanding these immediate concerns, there is one good reason to believe that the longer-run impact of today's oil market developments will be far more muted than the far-reaching dislocations associated with the "shocks" of the 1970s. While dependence on imported oil has grown considerably since then, so, too, has the economy's energy efficiency, a decided plus in containing any negative ripples which do materialize.

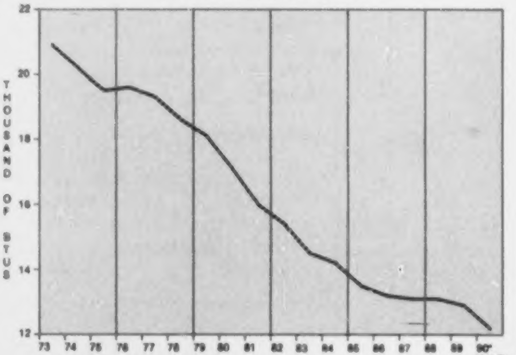
At this juncture, the economy hardly needs the depressing effects of an oil price runup. With real gross national product growth throttled back to a crawl, it comes as no surprise that pronounced weakness is showing up in virtually all business statistics and surveys. Private sector jobs growth is flattening, the unemployment rate is rising and consumer confidence is ebbing. At the same time, the nation's purchasing agents paint a gloomy picture of the manufacturing sector, factory orders are easing and export growth is slowing.

In this environment, it obviously wouldn't take much to tilt the economy from slow growth to no growth. By squeezing consumers' discretionary spending power, higher energy prices, combined with lackluster personal incomes growth and rising state and local taxes, could do it, delivering the coup de grâce to this aging business expansion.

Monetary Policy Dilemma

The outlook is further clouded by the policy dilemma facing the Federal Reserve in the wake of higher energy prices. With the economy seemingly heading south, expectations abounded that easier money was on the way. Now, however, the potential for a quickening of inflation may delay additional easing moves. For although the rate of consumer inflation has been basically stuck in the 4½ percent neighborhood, and producer price inflation is somewhat more subdued, even this situation appears to be unacceptable to the Fed. And, unfortunately, it may not get better very soon. While energy prices directly account for only 7½ percent of the consumer price index, this provides little cause for complacency. For the next several months, both the direct effects of rising crude oil prices, whether at the gasoline pump or the home heating furnace, and the indirect effects on such prices as airline tickets and over-the-road freight forwarding costs, will be working through the price indexes, testing severely the Fed's inflation tolerance.

U.S. PETROLEUM AND NATURAL GAS CONSUMPTION
PER DOLLAR OF REAL GNP



Source: Energy Department

If that was all, the central bank could derive some consolation from the fact that in contrast to previous oil price shocks the inflation impact this time around might be different. This is because a weakening economy will put a lid on the ability of business to pass along higher fuel costs. But, the Fed's quandry is being further complicated by a nagging buildup of compensation pressures. Notwithstanding soft economic

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conditions, average hourly earnings rose six cents in July, or at better than a seven percent annualized clip, to $10.09, and the June gain was revised higher. Escalating wages and higher oil prices heighten not only the inflation risks of monetary ease, but the recession risks of policy inertia as well. If the Fed doesn't take steps to stimulate the economy, these same two factors will further erode slumping corporate profitability, eating into business spending on inventories, capital equipment and jobs, and making any downturn that does develop that much worse.

A Fuel-Efficient Economy

From almost any vantage point, the business and price outlook has darkened. However, what nearly everyone seems to be ignoring amidst the handwringing surrounding rising oil prices, lurking supply disruptions and increased oil import dependence is that this economy has become decidedly more energy efficient in recent years. It takes far less petroleum to produce each $1 of real GNP than it did several years ago, and the nation's transportation sector, which alone accounts for two-thirds of total oil consumption, has become vastly more efficient.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	**Latest Week**	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (7/25/90)	214,237	- 659	- 3,716
New York City (8/1/90)	39,615	- 51	- 2,589
Commercial Paper (8/1/90)	542,909	- 2,574	+ 38,057

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	**Latest Week**	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (7/25/90)	319,735	- 1,416	+ 685
New York City (8/1/90)	58,476	+ 1,184	- 72

Total Loans and Leases Gross Adjusted

	Latest Week	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (7/25/90)	1,013,296	- 1,338	+ 45,731
New York City (8/1/90)	187,676	+ 5,307	+ 11,108

Financial Markets

	Friday 8/10/90	**Change Since Week Ago**	**Change Since Year Ago**
U.S. Governments, Closing Yields:			
90-Day Bills†	7.63%	+ .11	+ .58
180-Day Bills†	7.66	+ .12	+ .39
Longest Bills†	7.67	+ .13	+ .50
Recent Issues:			
8s 7/31/92	7.95	+ .18	
8½s 6/30/94	8.28	+ .28	
8¾s 8/15/00 (When Issued)	8.70	NA	
8¾s 8/15/20 (When Issued)	8.80	NA	
Municipals:			
Bond Buyer—20 Bond Index* (8/9/90)	7.22%	+ .14	+ .20
Blue List Total ($ Million)	$1,140	+ $128	- $ 474
30-Day Visible Supply ($ Million)	$1,799	- $ 72	- $2,366
Total	$2,939	+ $ 56	- $2,840
Corporates:			
Moody's Aa Composite (8/9/90)	9.56	+ .15	+ .48
30-Day Visible Supply ($ Million)	$1,150	+ $200	- $2,058
Stocks:			
Dow-Jones Averages:			
Industrials	2,716.59	- 93.06	+ 32.79
Transportation	974.82	- 64.23	- 438.41
Utilities	203.09	- 6.61	- 14.47
65 Stocks	948.89	- 40.43	- 116.38
N.Y.S.E. Composite Index	184.15	- 4.67	- 8.12
N.Y.S.E. Avg. Daily Vol. for Week (000's)	192,963	- 15,545	- 7,502

*34% Taxable equivalent 10.94%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	**Friday 8/10/90**	**Week Ago**
Overnight	8.00%	8.00%
1 month	7.94	7.88
3 month	7.88	7.88
6 month	7.88	7.88
1 year	8.00	7.94

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/10/90)	**Currency Per U.S. $**	**Week Ago**
Belgium	32.87	32.75
Canada	1.1485	1.1511
France	5.3630	5.3310
Germany	1.5980	1.5905
Italy	1172.00	1164.20
Japan	150.13	149.50
Mexico	2856.20	2850.60
Netherlands	1.8000	1.7925
South Korea	707.26	705.27
Switzerland	1.3450	1.3515
Taiwan	26.97	26.84
U.K.*	1.8660	1.8595

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (8/10/90) (Adjusted for Inflation)	**Change Since Week Ago**	**Change Since 2/27/85**
	+0.5%	-3.4%

Take, for example, the passenger car fleet. With the gas-guzzlers of yesteryear a memory, the fleet now averages an estimated 21 miles per gallon, a better than 50 percent improvement compared with the 13½ mile per gallon average prevailing in the early 1970s and about a third more efficient than just a decade ago. What is more, newly-produced domestic automobiles are doing even better, averaging some 27 miles per gallon. This suggests that today's gasoline price hikes should have a proportionally smaller impact on the consumer's wallet than those of the 1970s and early 1980s. And, much of the same can be said for the economy in general.

As shown in the chart, it currently takes 40 percent less oil to produce each $1 of real GNP than it did in 1973, and about 33 percent less than in 1979. This trend has continued virtually nonstop since 1973, and there is little reason to think it will cease now. Quite the contrary. Today's oil market turbulence again underscores the need for enhanced conservation. Thanks to past efforts, the U.S. economy is less vulnerable to an oil "shock" now than at any time in recent memory. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/8/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	240.376	+ 2.790	+14.289
Loans to Depository Inst.	.903	- .009	+ .195
Float	1.075	+ .918	+ .478
Total Reserve Bank Credit	281.585	+ 4.074	+21.150
Treasury Deposits with Federal Reserve Banks	5.763	+ .435	+ .220
Currency in Circulation	269.548	+ 1.386	+19.974
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	230.611	+ 1.946	- 8.683
Member Bank Reserves:	8/8/90		
Total Reserves Held	58.832	- .205	- .678
Excess (Deficiency)	.709	- .176	- .006
Net Free Reserves	.220	- .131	+ .126
		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
Monetary Aggregates †			
M1 (7/30/90)	809.8	+ 0.9	+ 3.8
M2 (7/30/90)	3,270.4	+ 0.1	+ 4.6
M3 (7/30/90)	4,056.8	- 0.9	+ 1.2
Domestic Nonfinancial Debt (1st Q'90)	9,987.4	+ 7.6	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/10/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.39%	7.29%	7.18%
* Federal Agencies	7.90	7.95	8.00
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.71	8.79	8.86
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	7.95	7.95	7.95

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	7.93%	Sep.	7.87%
15- 29 days	7.85	Oct.	7.77
30- 59 days	7.79	Nov.	7.67
60- 89 days	7.65	Dec.	7.62
90-179 days	7.54	Jan.	7.58
180-239 days	7.40	Feb.	7.53
240-270 days	7.40		

‡ Industrial Paper–Prime			
30- 89 days	7.80%	†Federal Funds	
90-120 days	7.70	Effective Rate	7.94%

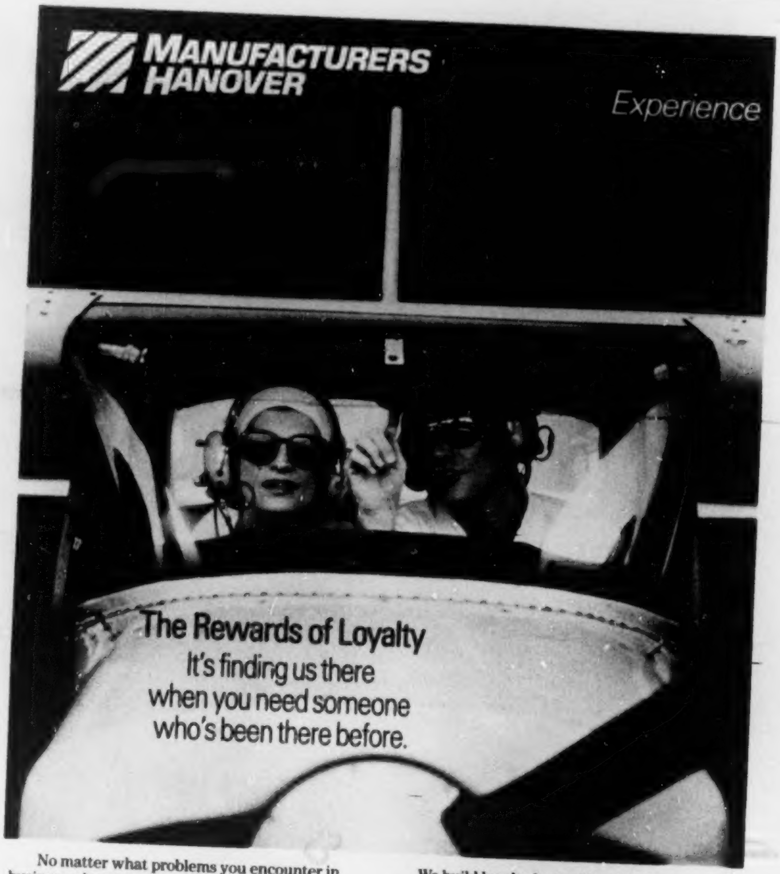
‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'90	$ 5,452	$ 5,375	$ 5,174
Gross National Product (1982 Dollars)*	2nd Q'90	$ 4,163	$ 4,163	$ 4,112
Percent Change, Annual Rate	2nd Q'90	1.2	1.7	1.6
Change in Consumer Prices*	Jun '90	6.0 %	2.4%	2.4%
Change in MH Cost of Living Index*	Jun '90	6.0 %	2.4%	3.6%
Change in Producer Prices*	Jul '90n	- 1.2%	2.4%	- 4.8%
Civilian Employment (Thousands of Persons) †	Jul '90n	117,953	118,389	117,436
Unemployment as % of Civilian Labor Force †	Jul '90n	5.5%	5.2%	5.3%
Personal Income*	Jun '90n	$ 4,640	$ 4,623r	$ 4,372r
Leading Indicators Composite Index (1967=100) †	Jun '90n	146.0	146.0r	144.0
Industrial Production Index (1977=100) †	Jun '90	109.8	109.3	108.4
Net Change in Consumer Installment Credit †	Jun '90n	$ 0.46	$ 3.65r	$ 1.63
U.S. Merchandise Trade Balance †	May '90	- $ 7.73	- $ 7.31	- $ 10.26
Plant and Equipment Expenditures*	3rd Q'90	$ 511.6(a)	$ 506.8(a)	$ 484.9
Private Housing Starts (Thousands of Units)*	Jun '90	1,177	1,205	1,414
New Construction Expenditures*	Jun '90n	$ 447.5	$ 447.6r	$ 431.6
Total Business inventories †	May '90	$ 799.4	$ 796.1	$ 779.1
Total Business Sales †	May '90	$ 538.3	$ 533.6	$ 523.5

r*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.



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MANUFACTURERS HANOVER

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Monday, August 27, 1990

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers
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Department
17/270

Global Effects Of Today's Oil "Crisis"

Although the jump in oil prices resulting from recent developments in the Middle East will spell somewhat higher inflation and slower growth for the global economy, the impact will be small compared with the oil price "shocks" of 1973 and 1979. For one thing, today's price increase is not as great in percentage terms. In 1973, the Arab oil embargo caused prices to surge from barely $2 per barrel to more than $10, a fivefold increase. In 1979, the effects of the Iranian revolution more than doubled the price of a barrel of oil from around $13½ to more than $31 by the end of 1980. In the present situation, a jump to $30 per barrel from last year's average price of $18 would represent an increase of 67 percent.

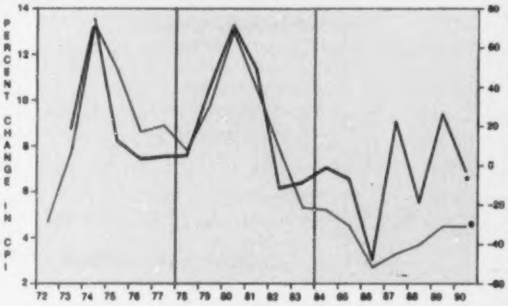
For another, most countries, at least in the industrial world, have not only become more efficient in their use of oil, but they have also reduced their reliance on the commodity to satisfy their energy needs. In Japan, for example, the amount of oil needed to produce $1,000 worth of economic output dropped by 55 percent between 1973 and 1989. And while the country must import 99 percent of its oil, petroleum products provide just 45 percent of Japan's total energy needs, down from 68 percent in 1973. In Western Europe, thanks to conservation efforts and the development of alternative sources of energy such as nuclear power, oil consumption relative to economic growth has dropped by almost 30 percent since 1980. In particular, France was able to reduce its reliance on oil from 70 percent of its energy needs in 1973 to around 40 percent today.

At the same time, the oil price shocks of the past have prompted the industrial countries to prepare for emergencies in the future. The strategic oil reserves of the 24 industrial nations belonging to the OECD are enough to replace two years' worth of supplies from Iraq and Kuwait. The current weakness of the dollar will also help to ease the blow of higher oil prices to Western Europe and Japan. Because oil is priced in dollars on the world market, these countries will have to give up fewer units of their local currency for each dollar's worth of oil.

The Industrial World Can Manage

While today's jump in oil prices will increase the inflation rates of virtually all the industrial countries, the impact will be far less than before. One reason is that industrial world inflation is starting from a much lower rate than in 1973 and 1979 (chart). Another is that the central banks, having learned a lesson from the past, will not let inflation get out of hand this time.

CONSUMER PRICE INDEX FOR OECD (THIN) VS.
PRICE OF CRUDE OIL (THICK)
(ANNUAL PERCENT CHANGES)



*Jan-Jul 1990 e=OECD estimate

Sources: Independent Petroleum Association of America; OECD

West Germany's central bank, already concerned about the inflationary effects of an anticipated hefty increase in public spending related to German reunification, is expected to lead a round of interest rate hikes in Continental Europe later this year. At the same time, the French government, which helped spark an inflationary spiral by allowing wage increases to maintain workers' purchasing power in 1979, is one of Western Europe's staunchest inflation fighters today. Japan, too, is expected to tighten monetary policy within the next few months.

While higher interest rates are inevitable in Continental Europe and Japan, robust economic growth in most of these countries make it likely that they can weather the higher cost of both oil and credit without too much damage to their economies. Thanks to an investment boom in preparation for the single market by 1992, the 12 countries belonging to the European Community (EC) are, for the most part, in good shape, especially West Germany and France, the Community's two largest economies.

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The West German economy is set to grow another four percent in real terms this year, the same as in 1989. France's real economic growth rate will exceed three percent in 1990, following two years of four percent-plus growth. If oil prices remain around current levels, Japan's economy should grow by 4¾ percent this year, close to last year's five percent clip.

While the world as a whole will not be as hard hit by the jump in oil prices this time around, some countries will feel more pain than others. And rather than its status as either a net oil exporter or importer, a nation's vulnerability will depend on its current economic shape. In general, the industrial countries should weather higher oil prices better than the less developed countries in Latin America and Africa and the nations of Eastern Europe.

But even within the industrial world, the countries experiencing robust economic growth and low inflation—such as Japan, West Germany, and France—will fare much better than those with sluggish growth and high inflation rates. Although the United Kingdom, for example, is an oil exporter, any modest gains to the country in terms of stronger export earnings and higher government revenues will be more than offset by the dire effects on its already high inflation

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/8/90)	213,539	- 585	- 5,752
New York City (8/15/90)	39,626	+ 411	- 3,144
Commercial Paper (8/15/90)	539,598	- 5,553	+ 36,727

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/8/90)	319,977	- 639	+ 2,147
New York City (8/15/90)	60,039	+ 1,752	+ 2,045

Total Loans and Leases Gross Adjus

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/8/90)	1,023,238	- 842	+ 51,655
New York City (8/15/90)	191,134	+ 4,786	+ 15,577

Financial Markets

	Friday 8/24/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.73%	+ .01	- .48
180-Day Bills†	7.87	+ .05	- .44
Longest Bills†	7.94	+ .14	- .34
Recent issues:			
8s 7/31/92	8.30	+ .20	
8½s 6/30/94	8.61	- .05	
8¾s 8/15/00	9.06	+ .27	
8¾s 8/15/20	9.17	+ .23	
Municipals:			
Bond Buyer—20 Bond Index* (8/23/90)	7.56%	+ .30	+ .41
Blue List Total ($ Million)	$1,185	+ $ 13	- $ 241
30-Day Visible Supply ($ Million)	$2,484	+ $214	+$ 114
Total	$3,669	+ $227	- $ 127
Corporates:			
Moody's Aa Composite (8/23/90)	9.74	+ .07	+ .51
30-Day Visible Supply ($ Million)	$ 900	-0-	- $1,269
Stocks:			
Dow-Jones Averages:			
Industrials	2,532.93	- 111.87	- 199.43
Transportation	869.71	- 54.20	- 598.28
Utilities	190.96	- 10.18	- 27.41
65 Stocks	875.53	- 44.23	- 213.75
N.Y.S.E. Composite Index	171.05	- 9.14	- 23.74
N.Y.S.E. Avg. Daily Vol. for Week (000's)	190,266	+ 42,314	+24,302

*34% Taxable equivalent 11.45%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/24/90	Week Ago
Overnight	8.00%	8.34%
1 month	8.13	8.13
3 month	8.19	8.19
6 month	8.31	8.31
1 year	8.50	8.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/24/90)	Currency Per U.S. $	Week Ago
Belgium	31.94	32.01
Canada	1.1329	1.1455
France	5.2170	5.2220
Germany	1.5557	1.5542
Italy	1154.00	1146.50
Japan	142.20	147.80
Mexico	2867.40	2861.80
Netherlands	1.7523	1.7528
South Korea	707.55	709.54
Switzerland	1.2735	1.2905
Taiwan	26.89	26.86
U.K.*	1.9450	1.9100

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (8/24/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.3%	-3.4%

rate and rapidly weakening economy. Canada, too, on the brink of recession from the government's tight monetary policy, will stand to lose more from continued high interest rates and a slowdown in growth in the United States, its major export market, than it will gain from higher oil export earnings.

Pain For The Less Developed Economies

Within the developing world, the rise in oil prices will mean more pain for the heavily indebted, oil-importing countries of Latin America and Africa, such as Brazil. But even an oil-exporting country such as Mexico could be a loser. This is because the slowdown in economic growth in the U.S. will hurt Mexico's non-oil exports, while higher oil prices may threaten the government's fragile economic stabilization program.

Perhaps the worst victims of higher oil prices will be the countries in Eastern Europe, struggling to adopt free market policies. Not only will they have to pay world prices for their oil now, their payments will have to be made in hard currencies. So while the world economy as a whole can manage the current oil "crisis", many individual countries will experience some pain. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/22/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	241.684	+ 2.202	+ 17.331
Loans to Depository Inst.	1.592	+ .937	+ .667
Float	.120	- .287	- .304
Total Reserve Bank Credit	281.914	+ 1.737	+24.240
Treasury Deposits with Federal Reserve Banks	5.501	+ .213	+ .839
Currency in Circulation	270.845	+ .217	+21.861
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	234.705	+ 2.655	- 6.234
Member Bank Reserves:	**8/22/90**		
Total Reserves Held	59.822	+ .961	+ 1.227
Excess (Deficiency)	1.019	+ .263	+ .068
Net Borrowed Reserves	.067	+ .334	+ .309
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**‡ % Change Since Year Ago**
M1 (8/13/90)	814.4	+ 2.9	+ 4.0
M2 (8/13/90)	3,299.8	+ 2.1	+ 4.7
M3 (8/13/90)	4,085.6	+ 1.4	+ 1.6
Domestic Nonfinancial Debt (1st Q'90)	9,987.4	+ 7.6	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/24/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.52%	7.50%	7.41%
* Federal Agencies	8.00	8.02	8.05
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.78	8.94	9.09
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.20	8.35	8.48

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.03%	Sep.	8.05%
15- 29 days	8.00	Oct.	8.07
30- 59 days	7.98	Nov.	8.05
60- 89 days	7.93	Dec.	8.02
90-179 days	7.78	Jan.	8.02
180-239 days	7.60	Feb.	8.01
240-270 days	7.60		

‡ Industrial Paper–Prime			
30- 89 days	8.00%	†Federal Funds Effective Rate	8.06%
90-120 days	8.00		

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'90	$ 5,452 r	$ 5,375	- $ 5,174
Gross National Product (1982 Dollars)*	2nd Q'90	$ 4,163 r	$ 4,151	$ 4,112
Percent Change, Annual Rate	2nd Q'90	1.2 r	1.7	1.6
Change in Consumer Prices*	Jul '90n	4.8 %	6.0%	3.6%
Change in MH Cost of Living Index*	Jul '90n	6.0 %	6.0%	3.6%
Change in Producer Prices*	Jul '90	- 1.2%	2.4%	- 4.8%
Civilian Employment (Thousands of Persons) †	Jul '90	117,953	118,389	117,436
Unemployment as % of Civilian Labor Force †	Jul '90	5.5%	5.2%	5.3%
Personal Income*	Jun '90	$ 4,640	$ 4,623	$ 4,372
Leading Indicators Composite Index (1967=100) †	Jun '90	146.0	146.0	144.0
Industrial Production Index (1977=100) †	Jul '90n	109.9	109.9r	107.8
Net Change in Consumer Installment Credit †	Jun '90	$ 0.46	$ 3.65	$ 1.63
U.S. Merchandise Trade Balance †	Jun '90n	- $ 5.07	- $ 7.77r	- $ 7.95
Plant and Equipment Expenditures*	3rd Q'90	$ 511.6(a)	$ 506.8(a)	$ 484.9
Private Housing Starts (Thousands of Units)*	Jul '90n	1,148	1,179r	1,424
New Construction Expenditures*	Jun '90	$ 447.5	$ 447.6	$ 431.6
Total Business Inventories †	Jun '90n	$ 797.3	$ 800.4r	$ 782.6r
Total Business Sales †	Jun '90n	$ 544.4	$ 538.9r	$ 520.5r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 19

Monday, September 10, 1990

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Marking Time

While the direction of the world's financial markets has recently pivoted around investor perceptions of the likelihood of Middle East hostilities, the U.S. debt and equity markets have also had to wrestle with something else, namely, the timing of the next easing of monetary policy. It could be a matter of days, rather than weeks. For notwithstanding the highly uncertain outlook for oil prices, the tenuous position of the dollar in the foreign exchange markets and the conflicting press reports regarding the future direction of monetary policy, the chronic lethargy plaguing large chunks of the economy will soon force the central bank's hand. Although the Federal Reserve would probably prefer to delay any monetary policy move until after the Mideast crisis is resolved, marking time is a policy luxury which the economy can ill afford, especially when you consider such glaring symptoms of economic weakness as the deteriorating health of manufacturing, the rapid erosion of consumer confidence and the mounting toll of business failures.

Even a cursory scan of the business horizon cannot help but turn up a plethora of disappointingly downbeat economic surveys and statistics. Last week, for example, the National Association of Purchasing Management released the results of its August survey of the nation's industrial purchasing agents. If the outcome contained few surprises, it largely reaffirmed the prevailing view that the economic outlook is darkening. For the second consecutive month, more firms than not reported weaker business conditions, with particularly large declines reported in production and employment levels. Production levels have, in fact, been falling since May, while manufacturing employment seemingly cannot find bottom. This survey has been reporting factory job losses for 18 straight months; in August, the attrition of factory jobs apparently accelerated.

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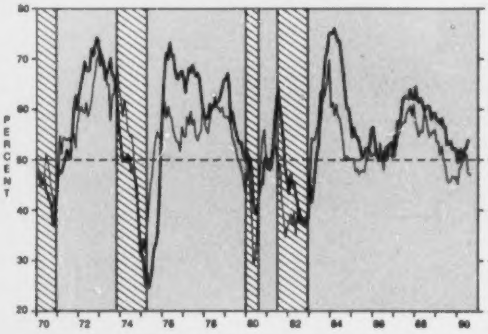
17/270

Nor was this survey immune from the impact of developments in the Mideast, most of which were negative. For one thing, prices jumped sharply. For another, in the wake of rising prices, some industries started to take countermeasures to avoid future price increases by stepping up orders at current prices and selectively adding to inventories. For this reason, supplier delivery schedules—which are closely watched by the Fed for signs of emerging bottlenecks—took a bit longer in August than in July. But, other than the notable exception of export orders, bright spots were few and far between in industrial America last month, and the malaise is likely to persist. As shown in the chart, trends in the purchasing managers' survey often provide a reliable guide to the direction of industrial production. At this juncture, both are heading south.

12-MONTH PERCENT CHANGE IN
INDUSTRIAL PRODUCTION (THICK)
VS. PURCHASING MANAGERS' COMPOSITE
DIFFUSION INDEX (THINK)



Sources: Commerce Department; Federal Reserve Board

A Nervous Consumer

One might reasonably argue that this is just one more survey highlighting the weakness of non-export-related manufacturing. As such, it hardly offers fresh insights into the state of the economy: The 20 percent plunge in factory operating earnings over the past five quarters tells it better, succinctly encapsulating the travail of domestic industry. But what is new is the unraveling of consumer confidence which has accompanied recent Mideast developments. Rising oil prices and lurking supply disruptions have apparently reminded most people of the oil "shocks" of the 1970s and the business downturns which quickly followed. According to the

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Conference Board, their index of consumer confidence, which had been trending slightly lower since March, fell by a hefty 18 points in August. Not only was this tumble one of the biggest on record, it was larger than the drop which followed the October 1987 stock market plunge. It also brought confidence down to a level not far from that which has preceded the past two recessions.

Since the key to the near-term economic outlook may be the rapidity with which consumer confidence is repaired, as was done within two months of October 1987, a prudent person might start to batten down the hatches. For the consumer had several good reasons to be nervous even prior to the hike in energy prices, and the associated diversion of discretionary spending power that has resulted.

In marked contrast to three years ago, jobs are harder to come by. In August, private-sector payroll employment fell by 12,000 persons, bringing the three-month average gain to just 53,000 persons. In the fourth quarter of 1987, the situation was far different. Jobs were plentiful, and private payroll employment was chalking up average monthly gains of better than

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	**Latest Week**	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (8/22/90)	212,926	- 913	- 7,014
New York City (8/29/90)	38,128	- 515	- 4,237
Commercial Paper (8/29/90)	545,876	- 1,996	+ 32,855

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	**Latest Week**	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (8/22/90)	319,699	- 2,071	+ 3,107
New York City (8/29/90)	58,287	- 709	+ 294

Total Loans and Leases Gross Adju

	Latest Week	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (8/22/90)	1,024,918	- 3,956	+ 52,384
New York City (8/29/90)	183,339	- 5,337	+ 7,288

Financial Markets

	Friday 9/7/90	**Change Since Week Ago**	**Change Since Year Ago**
U.S. Governments, Closing Yields:			
90-Day Bills†	7.62 %	+ .03	- .41
180-Day Bills†	7.72	- .02	- .49
Longest Bills†	7.74	- .02	- .49
Recent Issues:			
8⅛s 8/31/92	8.02	- .04	
8½s 6/30/94	8.35	- .05	
8¾s 8/15/00	8.79	- .05	
8¾s 8/15/20	8.91	- .07	
Municipals:			
Bond Buyer—20 Bond Index* (9/6/90)	7.41 %	- .06	+ .26
Blue List Total ($ Million)	$ 806	- $111	- $ 553
30-Day Visible Supply ($ Million)	$3,233	+ $770	- $ 129
Total	$4,039	+ $659	- $ 424
Corporates:			
Moody's Aa Composite (9/6/90)	9.71	- .05	+ .50
30-Day Visible Supply ($ Million)	$ 275	- $220	- $4,106
Stocks:			
Dow-Jones Averages:			
Industrials	2,619.55	+ 5.19	- 89.99
Transportation	908.28	+ 6.84	- 565.05
Utilities	200.90	+ 4.97	- 15.08
65 Stocks	910.46	+ 6.67	- 174.01
N.Y.S.E. Composite Index	177.51	+ .54	- 16.44
N.Y.S.E. Avg. Daily Vol. for Week (000's)	115,878	- 12,004	- 39,749

*34% Taxable equivalent 11.23%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	**Friday 9/7/90**	**Week Ago**
Overnight	8.13%	7.94%
1 month	8.00	7.94
3 month	8.00	7.94
6 month	8.00	8.00
1 year	8.13	8.13

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/7/90)	**Currency Per U.S. $**	**Week Ago**
Belgium	32.06	32.20
Canada	1.1652	1.1547
France	5.2250	5.2580
Germany	1.5600	1.5673
Italy	1163.70	1163.00
Japan	140.37	143.40
Mexico	2878.60	2873.00
Netherlands	1.7575	1.7658
South Korea	707.65	705.87
Switzerland	1.3050	1.2970
Taiwan	26.90	26.89
U.K.*	1.8962	1.8915

*U.S. $ per U.K. pound

	Change Since Week Ago	**Change Since 2/27/85**
MH TRADE-WEIGHTED DOLLAR (9/7/90) (Adjusted for Inflation)	-0.3 %	-2.2 %

360,000 persons. So, too, business failures are now soaring, posing an additional threat to job and income security. And, as if this wasn't enough, household wealth is being battered by the combination of soaring debt loads and slumping real estate values.

Time For Lower Interest Rates

In this environment, the cautious stance of the consumer is understandable. It is harder to say the same about the stance of monetary policy. The widely anticipated easing of monetary policy has so far been postponed until a better reading of the oil price outlook emerges, notwithstanding the spreading economic malaise and multiplying signs of an intensifying credit crunch. Although the Fed does seem to want to reduce interest rates—at least judging by its policy-setting Open Market Committee minutes—this inclination has yet to translate into any meaningful rate decline. This hesitancy can primarily be explained by fears of an adverse bond market reaction, as occurred twice in the past eight months. Yet, the stakes seem higher now—and it's about time that the dog wagged the tail, rather than the other way around. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/5/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	244.091	+ 3.853	+19.084
Loans to Depository Inst.	.767	+ .256	+ .256
Float	.167	- .695	- .812
Total Reserve Bank Credit	284.970	+ 4.608	+26.692
Treasury Deposits with Federal Reserve Banks	5.368	+ .149	+ .549
Currency in Circulation	273.114	+ 2.348	+23 479
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	235.236	+ .692	- 5.452
Member Bank Reserves:	9/5/90		
Total Reserves Held	58.632	- 1.168	+ .694
Excess (Deficiency)	.848	- .056	- .111
Net Free Reserves	.217	+ .399	- .226
		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
Monetary Aggregates †			
M1 (8/27/90)	815.4	+ 5.1	+ 4.5
M2 (8/27/90)	3,304.7	+ 4.4	+ 4.9
M3 (8/27/90)	4,091.3	+ 3.0	+ 1.9
Domestic Nonfinancial Debt (1st Q'90)	9,987.4	+ 7.6	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/7/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.40%	7.36%	7.26%
* Federal Agencies	7.91	7.95	8.05
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.71	8.93	9.09
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.00	8.00	8.00

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	7.96%	Oct.	7.90%
15- 29 days	7.50	Nov.	7.83
30- 59 days	7.83	Dec.	7.74
60- 89 days	7.70	Jan.	7.74
90-179 days	7.63	Feb.	7.68
180-239 days	7.50	Mar.	7.64
240-270 days	7.50		

‡ Industrial Paper–Prime			
30- 89 days	7.95%	†Federal Funds	
90-120 days	7.77	Effective Rate	7.94%

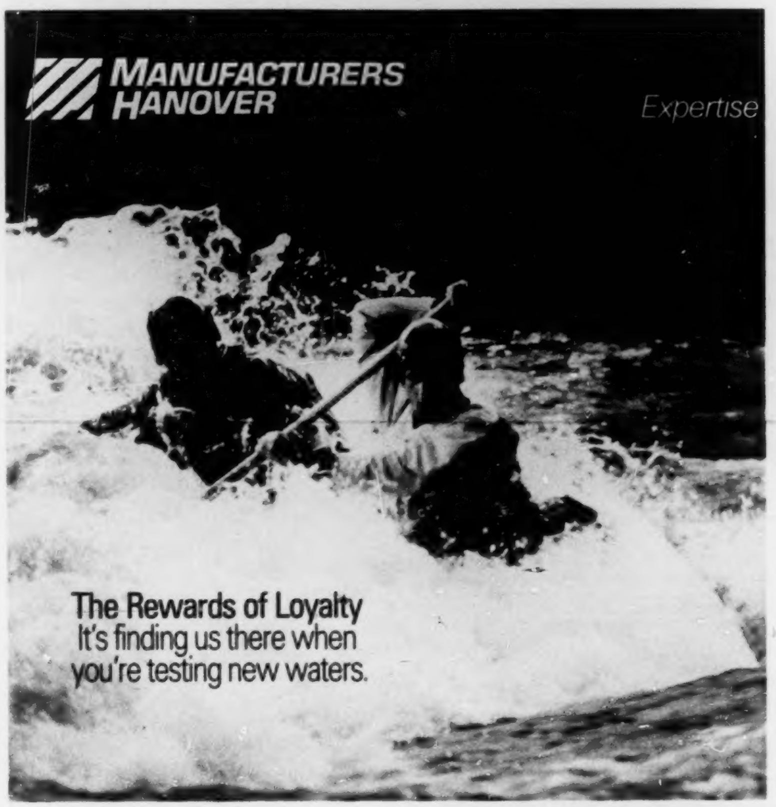
‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'90	$ 5,452	$ 5,375	$ 5,174
Gross National Product (1982 Dollars)*	2nd Q'90	$ 4,163	$ 4,151	$ 4,112
Percent Change, Annual Rate	2nd Q'90	1.2	1.7	1.6
Change in Consumer Prices*	Jul '90	4.8 %	6.0%	3.6%
Change in MH Cost of Living Index*	Jul '90	6.0 %	6.0%	3.6%
Change in Producer Prices*	Jul '90	- 1.2%	2.4%	- 4.8%
Civilian Employment (Thousands of Persons) †	Aug '90n	117,658	117,953	117,550
Unemployment as % of Civilian Labor Force †	Aug '90n	5.6%	5.5%	5.3%
Personal Income*	Jul '90n	$ 4,672	$ 4,646r	$ 4,398
Leading Indicators Composite Index (1967=100) †	Jul '90n	146.1	146.1r	144.1
Industrial Production Index (1977=100) †	Jul '90	109.9	109.9	107.8
Net Change in Consumer Installment Credit †	Jun '90	$ 0.46	$ 3.65	$ 1.63
U.S. Merchandise Trade Balance †	Jun '90	- $ 5.07	- $ 7.77	- $ 7.95
Plant and Equipment Expenditures*	3rd Q'90	$ 511.6(a)	$ 506.8(a)	$ 484.9
Private Housing Starts (Thousands of Units)*	Jul '90	1,148	1,179	1,424
New Construction Expenditures*	Jul '90n	$ 442.2	$ 440.4r	$ 429.0
Total Business Inventories †	Jun '90	$ 797.3	$ 800.4	$ 782.6
Total Business Sales †	Jun '90	$ 544.4	$ 538.9	$ 520.5

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.



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Financial Digest

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Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Gulf Crisis Unnerves Currency Markets

The Gulf crisis has dominated movements in the foreign exchange markets ever since Iraq invaded Kuwait on August 2. This has resulted in wide currency swings as market sentiment toward various currencies has shifted on a dime, depending upon whether traders were focusing on the probability of a diplomatic or a military solution to the Mideast crisis, oil price gyrations, or the effects of higher oil prices on monetary policy and/or economic performance in a particular country.

Because of the dollar's traditional role as a "safe-haven" currency—which means investors would flock to the greenback in times of war because it is underpinned by the world's largest economy and its strongest military power—it jumped by three German pfennigs and four Japanese yen immediately after Iraq attacked Kuwait. It wasn't long, however, before traders began to focus on the effects of the crisis on the U.S. economy. Fears that the cost of the military buildup and higher oil prices would increase the probability of recession in the United States, place upward pressure on the inflation rate, and worsen the U.S. budget deficit, soon turned market sentiment sharply against the dollar. Negative sentiment was exacerbated by the widespread belief that the risk of recession would force the Federal Reserve to lower U.S. interest rates, reducing the appeal of the dollar even further. As a result, the dollar fell sharply against the yen and plunged to an all-time low of 1.5385 German marks on August 27.

However, as the military buildup in the Gulf intensified and hopes of a negotiated settlement dwindled, some of the dollar's safe-haven allure returned. At the same time, fears about the effects of higher oil prices on the U.S. inflation rate and the prospect of higher interest rates abroad have made the Fed extremely reluctant to lower interest rates. As a result, the dollar has been able to recoup some of its losses against the mark.

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The Yen Rebounds

Although the dollar has recovered a bit against the mark this month, it has continued to decline against the yen, falling to a 13-month low of around 137 yen against the Japanese unit. After an initial selloff due to Japan's dependence on imported oil, the yen has been one of the best performing currencies since the Gulf crisis began. Rising interest rates are one reason. Fears that higher oil prices would add to inflation pressures prompted the Bank of Japan to lift its discount rate by 75 basis points to six percent on August 30, the highest level in eight years. As a result, Japanese short-term interest rates are now higher than U.S. rates.

Another reason for the yen's rebound has been a reversal of the huge capital outflows from Japan to the United States that had occurred in the 1980s. Reversing their investment strategy of the past decade, Japanese institutional investors are bringing their money home this year. They sold $8.9 billion of U.S. stocks and bonds during the first half of 1990, representing the first sustained net selling of U.S. securities since 1982. This change in investment strategy reflects investors' attempts to cover serious losses suffered in the Tokyo stock market plunge, the growing attraction of continental European securities and the diminishing appeal of the U.S. bond market as the differential between U.S. and Japanese bond yields has shrunk to less than 50 basis points.

Favorable interest rate differentials and positive economic fundamentals will probably cause the yen to continue to strengthen against the dollar and the European currencies as well. The yen has appreciated by over nine percent against the mark since mid-August as the higher-than-expected costs of German unification have turned market sentiment against the mark.

"High-Yielders" Lose Some Glitter

The Gulf crisis has made the always-volatile "high-yielding" currencies even more jittery than usual. For one thing, the return of volatility to the major markets has reduced traders' need for high interest income (Financial Digest—July 30). For another, the fact that many of the countries with high yields are also net energy exporters—namely, the United Kingdom, Canada and Australia—has added to trader un-

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certainty about whether to buy or sell their currencies in light of their otherwise weak economic fundamentals.

After the combination of lofty interest rates, the United Kingdom's status as a net oil exporter and the market's belief that the British government would enter sterling into the exchange rate mechanism (ERM) of the European Monetary System (EMS) in the near future propelled the pound to a nine-year high of $1.96 against the dollar, the currency plunged by over ten cents in a matter of two weeks as Chancellor of the Exchequer John Major dashed market hopes of an early entry of sterling into the ERM. With the outlook for oil prices, and consequently, the U.K. inflation rate now uncertain, Chancellor Major stated that he will use his judgement as to when his inflation prerequisites have been met, possibly delaying sterling's entry into the ERM until next year. This remark sparked the biggest one-day plunge in the pound in almost a year.

The Canadian dollar soared to a twelve-year high of almost US$0.89 against its U.S. counterpart last month until news that the Canadian economy contracted in the second quarter and the announcement that the Bank of Montreal cut its prime rate for the second time in a

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/5/90)	211,172	- 1,107	- 7,894
New York City (9/12/90)	37,586	+ 42	- 4,922
Commercial Paper (9/12/90)	549,939	+ 4,768	+ 36,477

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/5/90)	317,637	+ 178	- 509
New York City (9/12/90)	57,853	- 350	- 414

Total Loans and Leases Gross Adjus

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/5/90)	1,024,560	+ 7,536	+ 44,135
New York City (9/12/90)	182,530	- 4,511	+ 3,313

Financial Markets

	Friday 9/21/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.58%	+ .01	- .42
180-Day Bills†	7.73	+ .10	- .42
Longest Bills†	7.75	+ .05	- .46
Recent Issues:			
8⅛s 8/31/92	8.10	+ .08	
8½s 6/30/94	8.45	+ .07	
8¾s 8/15/00	8.98	+ .13	
8¾s 8/15/20	9.12	+ .12	
Municipals:			
Bond Buyer—20 Bond Index* (9/20/90)	7.41%	+ .06	+ .08
Blue List Total ($ Million)	$1,212	+ $264	- $ 363
30-Day Visible Supply ($ Million)	$1,717	+ $ 90	- $3,158
Total	$2,929	+ $354	- $3,521
Corporates:			
Moody's Aa Composite (9/20/90)	9.75	+ .04	+ .54
30-Day Visible Supply ($ Million)	$1,212	+ $200	- $4,827
Stocks:			
Dow-Jones Averages:			
Industrials	2,512.38	- 51.73	- 169.23
Transportation	876.30	- 13.12	- 571.96
Utilities	201.71	+ 2.51	- 15.03
65 Stocks	881.68	- 11.59	- 191.32
N.Y.S.E. Composite Index	171.03	- 3.12	- 21.70
N.Y.S.E. Avg. Daily Vol. for Week (000's)	149,390	+ 25,470	+10,296

*34% Taxable equivalent 11.23%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/21/90	Week Ago
Overnight	8.06%	7.94%
1 month	8.25	8.06
3 month	8.19	8.00
6 month	8.25	8.00
1 year	8.31	8.13

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/21/90)	Currency Per U.S. $	Week Ago
Belgium	32.37	32.30
Canada	1.1556	1.1662
France	5.2740	5.2600
Germany	1.5750	1.5710
Italy	1174.00	1171.50
Japan	136.70	137.10
Mexico	2889.00	2884.20
Netherlands	1.7758	1.7705
South Korea	707.06	707.85
Switzerland	1.3200	1.3055
Taiwan	26.87	26.90
U.K.*	1.8485	1.8330

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (9/21/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+1.8%	-6.1%

month caused the currency to give back all of the gains that it made since the Gulf crisis began. Although Canada is a net energy exporter, the jump in oil prices couldn't have come at a worse time for the economy, already on the brink of recession due to the Bank of Canada's tight monetary policy.

The market's disenchantment with the high-yielding currencies also spread to the EMS. Just two months ago, the central banks of Spain and Italy were forced to intervene in the foreign exchange markets in order to keep the high-flying peseta and the lira within their permitted trading bands. However, because Spain and Italy are more vulnerable to rising oil prices than the other EMS countries—their inflation rates are higher and they have done less to reduce their dependence on oil—these currencies have lost much of their glitter, often requiring central bank intervention to prevent them from falling too fast.

While forecasting foreign exchange rates has never been easy, the Gulf crisis has made the task even more difficult. As long as the tensions in the Middle East remain, huge currency swings will likely continue as market participants try to decide what each piece of news means for a country's interest rate outlook and economic performance. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/19/90	$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	244.855	- .103	+18.631
Loans to Depository Inst.	.979	+ .547	+ .231
Float	.402	- 1.086	- .606
Total Reserve Bank Credit	287.095	- .344	+25.146
Treasury Deposits with Federal Reserve Banks	7.570	+ 2.880	+ 1.084
Currency in Circulation	272.957	- 1.144	+24.149
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	234.483	- 3.082	- 4.841
Member Bank Reserves:	9/19/90		
Total Reserves Held	60.672	+ 2.038	+ .776
Excess (Deficiency)	.733	- .176	- .155
Net Free Reserves	.033	- .246	- .262
		‡ % Change Since 3 Months Ago*	Year Ago
Monetary Aggregates †			
M1 (9/10/90)	820.5	+ 5.9	+ 4.8
M2 (9/10/90)	3,317.6	+ 5.9	+ 5.0
M3 (9/10/90)	4,097.7	+ 4.0	+ 2.1
Domestic Nonfinancial Debt (1st Q'90)	9,987.4	+ 7.6	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/21/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.34%	7.30%	7.18%
* Federal Agencies	7.90	7.85	7.90
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.71	8.93	9.09
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.25	8.25	8.20

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	7.91%	Oct.	8.17%
15- 29 days	8.00	Nov.	8.05
30- 59 days	7.90	Dec.	8.00
60- 89 days	7.80	Jan.	7.98
90-179 days	7.68	Feb.	7.93
180-239 days	7.60	Mar.	7.90
240-270 days	7.60		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	7.98%		
90-120 days	7.90	Effective Rate	8.13%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'90	$ 5,452	$ 5,375	$ 5,174
Gross National Product (1982 Dollars)*	2nd Q'90	$ 4,163	$ 4,151	$ 4,112
Percent Change, Annual Rate	2nd Q'90	1.2	1.7	1.6
Change in Consumer Prices*	Aug '90n	9.6 %	4.8%	0.0%
Change in MH Cost of Living Index*	Aug '90n	4.8 %	6.0%	2.4%
Change in Producer Prices*	Aug '90n	15.6 %	- 1.2%	- 3.6%
Civilian Employment (Thousands of Persons) †	Aug '90	117,658	117,953	117,550
Unemployment as % of Civilian Labor Force †	Aug '90	5.6%	5.5%	5.3%
Personal Income*	Jul '90	$ 4,672	$ 4,646	$ 4,398
Leading Indicators Composite Index (1967=100) †	Jul '90	146.1	146.1	144.1
Industrial Production Index (1977=100) †	Aug '90n	109.8	110.0r	108.2
Net Change in Consumer Installment Credit †	Jul '90n	$ 4.47	$ 0.12r	$ 2.74
U.S. Merchandise Trade Balance †	Jul '90n	- $ 9.33	- $ 5.34r	- $ 9.08
Plant and Equipment Expenditures*	4th Q'90n	$ 538.6(a)	$ 532.5(a)r	$ 519.6r
Private Housing Starts (Thousands of Units)*	Aug '90n	1,127	1,147r	1,325
New Construction Expenditures*	Jul '90	$ 442.2	$ 440.4	$ 429.0
Total Business Inventories †	Jul '90n	$ 801.9	$ 796.5r	$ 788.6r
Total Business Sales †	Jul '90n	$ 539.5	$ 542.4r	$ 516.2

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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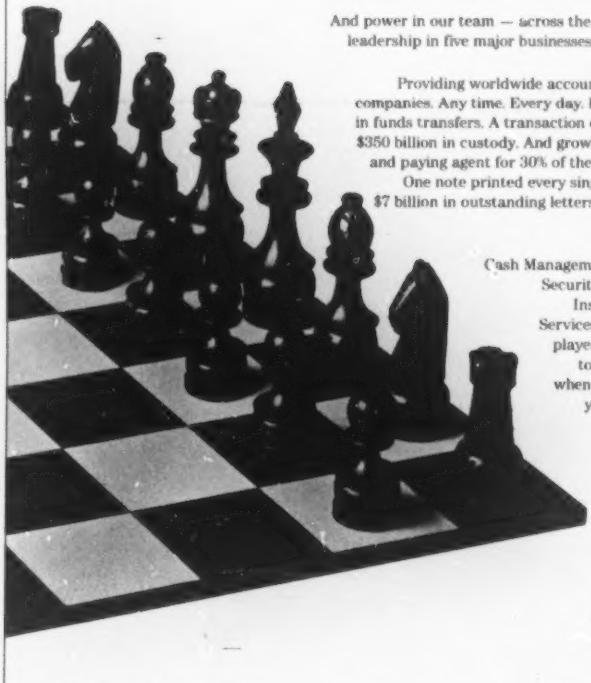

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Financial
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MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 21

Friday, October 5, 1990

Analysis of Business Trends Plus Selected Financial Indicators

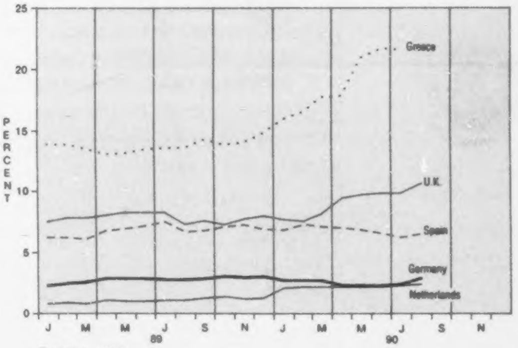
Manufacturers Hanover Economics Department 17/270

Gulf Crisis Stalls European Monetary Union

Only a few months ago, the drive toward monetary union by the 12-nation European Community (EC) was moving with such momentum that it seemed that each member country would be turning in its marks, francs, pounds, etc., for a single European currency as early as the mid-1990s. While the United Kingdom has always expressed reservations about relinquishing control of its monetary policy to an independent European central bank, the other 11 EC members supported the three-stage plan toward economic and monetary union (EMU) spelled out in the report written last year by a committee headed by the President of the European Commission, Jacques Delors (Financial Digest—July 31, 1989). In fact, the first stage of the Delors Report, which calls for closer economic and monetary policy coordination among all EC members, was implemented as scheduled on July 1.

While the Delors Report made no mention of dates for the implementation of the second and third stages, the European Commission now wants Stage II, which will prepare the groundwork for the creation of a European central bank, to begin on January 1, 1993, the date of the launching of the single European Market. The Commission would also like Stage III, which involves the creation of a single European currency managed by an independent central bank, to begin "soon after".

However, the unsettling events of this past summer—the Gulf crisis, the surge in oil prices and the higher-than-expected costs of German monetary union—have created huge misgivings among several EC member countries about such a rapid pace. All the countries except the United Kingdom are still committed to the ultimate goal of a single currency. They also agree that the European central bank must be totally independent and must give its first priority to price stability. However, several members have become extremely concerned that the EC as a whole may not be ready to take such a dramatic leap by 1993. At the moment, only France, Italy, Belgium, Luxembourg and Denmark are fully committed to the Delors "fast-track" approach.


CONSUMER PRICE INFLATION IN SELECTED EC COUNTRIES
(12-MONTH PERCENT CHANGES)

Source: IMF

Weaker Economies Need More Time

The chief reason that the other countries are now opting for a slower pace toward total monetary integration is that surging oil prices are expected to widen even further the already diverging economic performances of the EC nations. These countries, for example, have widely different inflation rates, ranging from under three percent in the Netherlands to over 20 percent in Greece (see chart). At the same time, countries such as Germany and Belgium are posting healthy current account surpluses, while those of the United Kingdom and Spain are deeply in the red. Also, the financial balance of the U.K. government is in surplus, while Italy's deficit is equivalent to 11 percent of its economy. Because the countries in the worst economic shape will be the hardest hit by today's oil crisis, rising petroleum prices will exacerbate these differences.

Higher oil prices are expected to cause Spain's inflation rate to reach 7½ percent by next year, a full percentage point above today's rate. What's more, because Spain imports over half of its oil needs, its current account deficit, already one of the largest in the world, could be equivalent to a whopping five percent of its economy by next year. As a result, Finance Minister Carlos Solchaga now wants to delay the second stage toward monetary union until 1994 in order to give the weaker economies more time to put their houses in order. His pro-

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posal was quickly supported by Portugal, Greece and Ireland.

Some Healthy Economies Have Reservations Too

It's not just the poorer countries that are calling for a slower approach, however. In fact, disagreement about the timing has produced a sharp rift in the German government. The Foreign Ministry, anxious for a united Germany to be strongly rooted in the European Community for political reasons, firmly backs the Delors full-speed-ahead pace. However, the central bank, backed by the Finance Ministry, is recommending caution. Bundesbank President Karl Otto Poehl now says that he is only willing to replace the well-regarded German central bank and Deutschemark with "something at least as good". What is more, the enormous costs of German monetary union—hefty bills for the West and surging unemployment for the East—have made the Finance Ministry aware of the dangers of hastily introducing a single currency before the economic differences between all parties involved have narrowed. While the mass exodus of East Germans to the West required quick monetary union in Germany, both the Bundesbank and Finance Ministry are strongly urging that a sufficient degree of economic convergence in the European Community be in

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/19/90)	209,444	- 1,579	- 8,561
New York City (9/26/90)	35,613	- 1,626	- 6,036
Commercial Paper (9/26/90)	563,207	+ 3,162	+ 50,774

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/19/90)	318,395	+ 1,138	+ 1,406
New York City (9/26/90)	57,015	- 1,119	- 1,027

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/19/90)	1,021,514	+ 3,568	+ 39,088
New York City (9/26/90)	178,534	- 5,425	+ 117

Financial Markets

	Friday 10/5/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.26%	- .09	- .54
180-Day Bills†	7.42	- .10	- .60
Longest Bills†	7.49	- .18	- .57
Recent Issues:			
8⅛s 9/15/92	7.80	- .19	
8½s 9/15/94	8.16	- .19	
8¾s 8/15/00	8.64	- .16	
8¾s 8/15/20	8.79	- .15	
Municipals:			
Bond Buyer—20 Bond Index* (10/4/90)	7.48%	- .05	+ .21
Blue List Total ($ Million)	$1,071	- $387	- $ 97
30-Day Visible Supply ($ Million)	$1,851	+ $687	- $1,494
Total	$2,922	+ $300	- $1,591
Corporates:			
Moody's Aa Composite (10/4/90)	9.75	- .14	+ .50
30-Day Visible Supply ($ Million)	$ 467	- $650	- $3,212
Stocks:			
Dow-Jones Averages:			
Industrials	2,510.65	+ 58.17	- 274.87
Transportation	866.32	+ 24.97	- 638.30
Utilities	205.42	+ 6.85	- 13.27
65 Stocks	881.48	+ 23.34	- 228.83
N.Y.S.E. Composite Index	170.70	+ 2.85	- 28.24
N.Y.S.E. Avg. Daily Vol. for Week (000's)	165,291	- 6,193	+13,807

*34% Taxable equivalent 11.33%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/5/90	Week Ago
Overnight	8.25%	8.50%
1 month	8.06	8.19
3 month	8.06	8.25
6 month	8.00	8.25
1 year	8.13	8.31

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/5/90)	Currency Per U.S. $	Week Ago
Belgium	31.59	32.25
Canada	1.1505	1.1543
France	5.1380	5.2425
Germany	1.5345	1.5663
Italy	1149.70	1171.70
Japan	132.60	138.15
Mexico	2901.00	2895.40
Netherlands	1.7308	1.7620
South Korea	703.00	703.59
Switzerland	1.2835	1.2990
Taiwan	26.78	26.80
U.K.*	1.9200	1.8730

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR (10/5/90) (Adjusted for Inflation)	+0.4%	-3.7%

place before a single currency be created there. The soaring costs of rebuilding East Germany, compounded by West Germany's promised payments for both Soviet troop withdrawal from East Germany and the Gulf military operation, have also made the Bundesbank increasingly nervous about relinquishing control of its monetary policy.

While France and its supporters agree that economic convergence among the EC countries is important, they argue that the Gulf crisis has made quick timing all the more urgent because monetary union will force the poorer countries to take the necessary measures to put their economies in order. They point, with some justification, to the superiority in economic performance of the countries that currently belong to the exchange rate mechanism of the European Monetary System (EMS) over those, like the United Kingdom, that do not.

In search for a compromise, the Dutch finance minister has proposed that the dates for the next stages of monetary union be set but should only be abided by if economic targets are met. So while the Community still remains on the road to monetary union, it may be the next century before transactions in marks, pounds and francs cease to take place. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/3/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	242,305	+ .546	+14.259
Loans to Depository Inst.	.511	- .010	- .467
Float	1.305	+ .973	+ .773
Total Reserve Bank Credit	285.326	+ 1.529	+20.551
Treasury Deposits with Federal Reserve Banks	7.701	+ 1.034	- 2.990
Currency in Circulation	272.349	+ 2.787	+24.467
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	236.673	+ 2.787	+ .362
Member Bank Reserves:	10/3/90		
Total Reserves Held	59.313	- 1.350	+ 1.207
Excess (Deficiency)	1.243	+ .472	+ .247
Net Free Reserves	.735	+ .664	+ .612
		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
Monetary Aggregates †			
M1 (9/24/90)	821.7	+ 6.3	+ 4.9
M2 (9/24/90)	3,316.2	+ 5.9	+ 4.9
M3 (9/24/90)	4,085.8	+ 3.9	+ 2.0
Domestic Nonfinancial Debt (1st Q'90)	9,987.4	+ 7.6	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/5/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.06%	7.09%	7.02%
* Federal Agencies	7.83	7.90	8.05
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.71	8.94	9.09
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.10	8.12	8.05

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.05%	Nov.	7.97%
15- 29 days	8.00	Dec.	7.85
30- 59 days	7.95	Jan.	7.85
60- 89 days	7.81	Feb.	7.77
90-179 days	7.66	Mar.	7.70
180-239 days	7.55	Apr.	7.65
240-270 days	7.55		

‡ Industrial Paper–Prime			
30- 89 days	8.00%	†Federal Funds	
90-120 days	7.73	Effective Rate	7.94%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'90	$ 5,443 r	$ 5,375	$ 5,174
Gross National Product (1982 Dollars)*	2nd Q'90	$ 4,155 r	$ 4,151	$ 4,112
Percent Change, Annual Rate	2nd Q'90	0.4 r	1.7	1.6
Change in Consumer Prices*	Aug '90	9.6 %	4.8%	0.0%
Change in MH Cost of Living Index*	Aug '90	4.8 %	6.0%	2.4%
Change in Producer Prices*	Aug '90	15.6 %	- 1.2%	- 3.6%
Civilian Employment (Thousands of Persons) †	Sep '90n	117,898	117,658	117,419
Unemployment as % of Civilian Labor Force †	Sep '90n	5.7%	5.6%	5.3%
Personal Income*	Aug '90n	$ 4,678	$ 4,665r	$ 4,399
Leading Indicators Composite Index (1967=100) †	Aug '90n	144.2	146.0r	144.8
Industrial Production Index (1977=100) †	Aug '90	109.8	110.0	108.2
Net Change in Consumer Installment Credit †	Jul '90	$ 4.47	$ 0.12	$ 2.74
U.S. Merchandise Trade Balance †	Jul '90	- $ 9.33	- $ 5.34	- $ 9.08
Plant and Equipment Expenditures*	4th Q'90	$ 538.6(a)	$ 532.5(a)	$ 519.6
Private Housing Starts (Thousands of Units)*	Aug '90	1,127	1,147	1,325
New Construction Expenditures*	Aug '90n	$ 442.5	$ 442.4r	$ 433.9
Total Business Inventories †	Jul '90	$ 801.9	$ 796.5	$ 788.6
Total Business Sales †	Jul '90	$ 539.5	$ 542.4	$ 516.2

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised. a-Anticipated.

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MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 22

Monday, October 22, 1990

Analysis of
Business
Trends Plus
Selected
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Indicators

Manufacturers
Hanover
Economics
Department
17/270

A Checkered Regional Economic Picture

Although the economy stands at the brink of recession, buffeted by lethargic retail sales, plunging residential construction and weakening jobs growth, not all regional economies are unraveling at the same speed. The darkening national skies mask wide local disparities in both performance and outlook, which run the entire gamut from brisk expansion to outright contraction. This regionally-checkered pattern has, in fact, become a hallmark of this business expansion, which has been punctured from time to time by a string of mini-recessions in such diverse locales as the Farm Belt, Rust Belt, Oil Patch and Wall Street. Each time, the nation as a whole dodged recession, and some optimists are arguing that it will do so again. They could be right, but whether those areas which are still expanding will be able to exert sufficient pull to keep the entire economy afloat is more problematic than usual, especially when you consider that the regions in the most dire straits carry some of the greatest economic weight.

Nowhere is the deterioration of business conditions more pronounced than in the Northeast. This area finds itself in the grips of a slowdown, experiencing job cutbacks, tumbling real estate values, rising office vacancy rates, widening state and local budget deficits and soaring tax bills. Although the precise dating of the ungluing of the Northeast economy is arguable, there is considerable agreement that the October 1987 stock market plunge, defense spending reductions and subsequent cutbacks throughout its high-technology industries have been the principal contributory factors. Employment has been a visible casualty, especially in New England where the number of jobs has contracted over the past year, as well as in the Middle Atlantic states, where jobs growth has slowed to a crawl. Neither region comes even close to matching the national average, a trend sharply in evidence since the October 1987 "crash".

Northeast Woes

The multiplying signs of malaise in the Northeast have become ominously self-reinforcing, with each negative turn seemingly begetting another. As layoffs have mounted and job security faded, retail sales have been hard hit throughout the region. Whereas such sales rose by 3½ percent nationwide during the year ending in July, they stood still in New England and advanced at about half the national rate in the Middle Atlantic states. The effects on the property markets have been even more severe. With office payroll employment tapering off, the demand for office space has dwindled, sending vacancy rates soaring—to a record high in Manhattan and a five-year high in Boston. Nor has residential property been spared. Quite the contrary. With buyers on the verge of becoming an endangered species, sales of existing homes have shriveled, prices have tumbled and housing starts have plunged nearly 40 percent in the tri-state New York, New Jersey, and Connecticut area over the past year. Property auctions are now commonplace and, if they're unsuccessful, foreclosure is often close behind.

These business woes have also been at least partially responsible for widening state and local budget deficits, and a flurry of tax hikes to correct them. The residents of New York and New Jersey are facing local tax increases to the tune of $4½ billion in the coming year, and the Federal government threatens to pile on some more. Surging oil costs are also taking their toll on discretionary consumer spending power and confidence, threatening to weaken further an already soft retailing environment. And, any lingering expectations of a strong Christmas selling season are fading almost as quickly as the hours of daylight.

The storm clouds gathered over the Northeast dissipate somewhat as one's gaze extends west, into the industrial heartland of the Great Lakes region and toward the long-depressed Oil Patch. Bolstered by bulging export orders and enhanced domestic competitiveness due to the draconian restructurings of years past and the sharp erosion of the dollar in the foreign exchange markets which has lifted import prices, business activity throughout the Great Lakes area has yet to be pinched severely. This has kept employment levels, retail sales and housing starts in the plus column. Even the nationwide commercial real estate rout has dealt this region only a glancing blow. Although rising,

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office vacancy rates in such large regional centers as Chicago, Cleveland and Cincinnati still stand a good distance below the national average.

So, too, some brightening of the Southwest business outlook has accompanied the recent rise in oil prices. If the price of oil remains above $35 per barrel, this development will only hasten the rebound already underway in Texas, the nation's third largest state, and around which a good deal of regional economic activity pivots. Such positive signs as a drop in the state's unemployment rate, a bottoming of the slump in housing starts and a gradual decline in office vacancy rates were emerging long before the latest oil price surge, but stepped-up capital spending in the oil-related industries can only accelerate and deepen the regional recovery.

Bi-Coastal Recession?

It is the West Coast, however, which may write the epitaph for today's business expansion. Only this area, especially the California powerhouse which now accounts for nearly 15 percent of the nation's gross output, has the size and diversity to mute the recessionary impulses radi-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (10/3/90)	207,440	+ 379	- 10,893
New York City (10/10/90)	35,627	- 72	- 6,304
Commercial Paper (10/10/90)	562,520	+ 965	+ 50,825

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (10/3/90)	318,880	+ 2,010	+ 1,577
New York City (10/10/90)	56,694	- 374	- 4,011

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (10/3/90)	1,019,108	+ 5,026	+ 37,239
New York City (10/10/90)	178,871	- 698	- 4,640

Financial Markets

	Friday 10/19/90	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.47%	+ .12	- .30
180-Day Bills†	7.55	+ .05	- .41
Longest Bills†	7.53	- .03	- .33
Recent Issues:			
8⅛s 9/15/92	7.85	- .06	
8½s 9/15/94	8.15	- .16	
8¾s 8/15/00	8.63	- .19	
8¾s 8/15/20	8.76	- .20	
Municipals:			
Bond Buyer—20 Bond Index* (10/18/90)	7.48%	- .08	+ .29
Blue List Total ($ Million)	$1,081	- $ 21	- $ 270
30-Day Visible Supply ($ Million)	$1,866	+ $324	- $ 683
Total	$2,947	+ $303	- $953
Corporates:			
Moody's Aa Composite (10/18/90)	9.81%	- .06	+ .65
30-Day Visible Supply ($ Million)	$ 467	-0-	- $1,593
Stocks:			
Dow-Jones Averages:			
Industrials	2,520.79	+ 122.77	- 168.35
Transportation	868.16	+ 38.46	- 362.64
Utilities	209.88	+ 4.02	- 5.60
65 Stocks	887.42	+ 37.41	- 133.46
N.Y.S.E. Composite Index	170.40	+ 5.98	- 21.72
N.Y.S.E. Avg. Daily Vol. for Week (000's)	180,726	+ 24,532	- 53,711

*34% Taxable equivalent 11.33%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/19/90	Week Ago
Overnight	7.94%	7.94%
1 month	8.06	8.06
3 month	8.13	8.13
6 month	8.13	8.13
1 year	8.13	8.13

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/19/90)	Currency Per U.S. $	Week Ago
Belgium	31.05	31.34
Canada	1.1685	1.1465
France	5.0555	5.0975
Germany	1.5085	1.5230
Italy	1131.00	1140.70
Japan	127.23	128.90
Mexico	2912.20	2906.60
Netherlands	1.7008	1.7160
South Korea	705.57	704.58
Switzerland	1.2720	1.2805
Taiwan	26.80	26.79
U.K.*	1.9545	1.9720

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (10/19/90) (Adjusted for Inflation)	Change Since	
	Week Ago	2/27/85
	+1.4%	-1.8%

ating from the East; if things go wrong, it could also significantly magnify them. The good news is that at California's periphery, near-boom conditions prevail in selected areas. These include the Seattle-Tacoma metroplex, which benefits from bustling port activity and a bulging backlog of commercial jet aircraft orders and the fast-growing Las Vegas area, which is luring some 4,000 new residents a month, and playing catch-up in providing all the newcomers with homes to live in, malls to shop at and roads to drive on.

The bad news is that the picture in California itself is less than rosy. As in New England, defense cutbacks and high-tech malaise have left their mark, muddying the jobs picture, and sending the state unemployment rate higher. Diminished affordability and tight environmental restrictions have put the brakes on a once-torrid residential property market, trimming housing starts by a third over the past year, and a glut of office space and "strip" shopping centers bodes ill for commercial construction. Unless checked, the softening of the California economy could set the stage for the bi-coastal recession of 1990, a 180-degree turn from the bi-coastal boom of five years ago. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/17/90	$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	242.417	- 1.688	+19.591
Loans to Depository Inst.	.392	- .017	- .096
Float	.596	- .072	- .302
Total Reserve Bank Credit	284.752	- 1.742	+23.604
Treasury Deposits with Federal Reserve Banks	5.505	+ 1.045	- .649
Currency in Circulation	275.472	+ .866	+25.663
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	237.628	+ .553	+ 4.138
Member Bank Reserves:	**10/17/90**		
Total Reserves Held	60.386	+ 1.070	+ .482
Excess (Deficiency)	.956	- .202	+ .030
Net Free Reserves	.568	- .083	+ .276
		‡ % Change Since	
Monetary Aggregates †		**3 Months Ago***	**Year Ago**
M1 (10/8/90)	821.9	+ 5.9	+ 5.0
M2 (10/8/90)	3,325.5	+ 4.9	+ 4.8
M3 (10/8/90)	4,092.0	+ 3.2	+ 2.0
Domestic Nonfinancial Debt (1st Q'90)	9,987.4	+ 7.6	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/19/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.26%	7.19%	7.07%
* Federal Agencies	7.75	7.75	7.75
* Municipal Notes–High Grade (34% Taxable Equivalent)	9.09	8.94	8.71
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.15	8.15	8.15

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	7.90%	Nov.	8.03%
15- 29 days	7.95	Dec.	7.98
30- 59 days	7.93	Jan.	7.99
60- 89 days	7.90	Feb.	7.89
90-179 days	7.80	Mar.	7.84
180-239 days	7.60	Apr.	7.79
240-270 days	7.60		

‡ Industrial Paper–Prime			
30- 89 days	7.98%	†Federal Funds	
90-120 days	7.80	Effective Rate	7.88%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'90	$ 5,443	$ 5,375	$ 5,174
Gross National Product (1982 Dollars)*	2nd Q'90	$ 4,155	$ 4,151	$ 4,112
Percent Change, Annual Rate	2nd Q'90	0.4	1.7	1.6
Change in Consumer Prices*	Sep '90n	9.6 %	9.6%	2.4%
Change in MH Cost of Living Index*	Sep '90n	4.8 %	4.8%	6.0%
Change in Producer Prices*	Sep '90n	19.2 %	15.6%	8.4%
Civilian Employment (Thousands of Persons) †	Sep '90	117,898	117,658	117,419
Unemployment as % of Civilian Labor Force †	Sep '90	5.7%	5.6%	5.3%
Personal Income*	Aug '90	$ 4,678	$ 4,665	$ 4,399
Leading Indicators Composite Index (1967=100) †	Aug '90	144.2	146.0	144.8
Industrial Production Index (1977=100) †	Sep '90n	110.7	110.4r	108.2
Net Change in Consumer Installment Credit †	Aug '90n	$ 2.09	$ 4.73r	$ 3.52
U.S. Merchandise Trade Balance †	Aug '90n	- $ 9.34	- $ 9.12r	- $ 10.33
Plant and Equipment Expenditures*	4th Q'90	$ 538.6(a)	$ 532.5(a)	$ 519.6
Private Housing Starts (Thousands of Units)*	Sep '90n	1,135	1,142r	1,263
New Construction Expenditures*	Aug '90	$ 442.5	$ 442.4	$ 433.9
Total Business Inventories †	Aug '90n	$ 806.5	$ 802.2r	$ 791.4r
Total Business Sales †	Aug '90n	$ 551.9	$ 540.4r	$ 531.6r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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Experience

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when you need someone
who's been there before.

No matter what problems you encounter in business, chances are we've encountered them before, and can help.

Our experience helps us build relationships of trust with our customers, relationships where loyalty has a chance to take root and flourish. With loyalty established, understanding is more complete; decisions come more easily; useful new ideas occur more readily; turnaround time is shorter; growth is accelerated.

We build loyalty by working hard to learn your business and by becoming an integral part of your team. In particular you'll find your Account Officer's experience in analogous situations a big help in solving problems and formulating a successful growth strategy. Helping businesses grow has always been a traditional strength of ours, and will always be a major commitment.

We'd like to be your bank for the life of your business.℠

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